

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

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FORM 8-K

CURRENT REPORT

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

Date of report (Date of earliest event reported): October 27, 2004

KADANT INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware 1-11406 52-1762325  
(State or Other (Commission File Number) (IRS Employer  
Jurisdiction Identification No.)  
of Incorporation)

One Acton Place  
Acton, Massachusetts 01720  
(Address of Principal Executive Offices) (Zip Code)

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

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

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

- Written communications pursuant to Rule 425 under the Securities Act (17  
CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR  
240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange  
Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange  
Act (17 CFR 240.13e-4(c))

KADANT INC.

Item 2.02 Results of Operations and Financial Condition.

On October 27, 2004, Kadant Inc. (the "Company") announced its  
financial results for the fiscal quarter ended October 2, 2004. The full text of  
the press release issued in connection with the announcement is furnished as  
Exhibit 99 to this Current Report on Form 8-K.

The information in this Form 8-K (including Exhibit 99) shall not be  
deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934  
(the "Exchange Act") or otherwise subject to the liabilities of that section,  
nor shall it be deemed incorporated by reference in any filing under the  
Securities Act of 1933 or the Exchange Act, except as expressly set forth by  
specific reference in such a filing.

Item 2.05 Costs Associated with Exit or Disposal Activities.

On October 27, 2004, the Board of Directors of the Company approved a  
plan to sell the Company's composites building products business (the  
"composites business") which is part of the Company's Composite and Fiber-based  
Products segment. The Company decided to sell the composites business after a  
determination that the business does not align with the Company's other business  
lines and long-term strategies. The Company intends to sell the composites  
business as a going concern and is presently evaluating potential buyers for the  
composites business as well as the costs that may be incurred in selling the  
business. Further, as described in Item 2.06 below, the Company is also  
evaluating whether any impairment charge related to the composites business is  
required in the quarter ending January 1, 2005, as a result of the decision to  
discontinue the composites business for accounting purposes.

Item 2.06 Material Impairments.

In connection with the decision to discontinue the operations of the composites business, as described under Item 2.05 above, the Company may incur an impairment charge in the fourth quarter of 2004. At the present time, the Company is not able to estimate the amount of the impairment charge, if any, that may be required.

Item 9.01 Financial Statements and Exhibits.

(c) Exhibit

The following exhibit relating to Item 2.02 shall be deemed to be furnished and not filed.

| Exhibit<br>No.<br>----- | Description of Exhibit<br>-----                          |
|-------------------------|--|
| 99                      | Press Release issued by the Company on October 27, 2004. |

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KADANT INC.

SIGNATURE

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

KADANT INC.

Date: October 27, 2004 By: /s/ Thomas M. O'Brien

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



[LOGO]  
 NEWS  
 KADANT  
 AN ACCENT ON INNOVATION  
 One Acton Place, Suite 202  
 Acton, MA 01720

Investor contact: Thomas M. O'Brien, 978-776-2000  
 Media contact: GreatPoint Communications, 978-392-6866

Kadant Reports 2004 Third Quarter Results  
 and Announces Intent to Sell Composites Business

ACTON, Mass., October 27, 2004 - For the third quarter of 2004, Kadant Inc. (NYSE:KAI) reported that revenues increased to \$53.3 million (including \$1.3 million from the favorable effect of currency translation), compared with \$45.9 million in the third quarter of 2003. GAAP net loss was \$0.5 million, or \$0.04 per diluted share, in the 2004 quarter, due primarily to a \$5.7 million operating loss in the company's composite building products business, compared with GAAP net income of \$2.7 million, or \$.19 per diluted share, in the 2003 quarter.

"After reporting solid performance in the first half of the year, we were set back by a large loss in the composites business that lowered our EPS by \$.26," said William A. Rainville, chairman and chief executive officer of Kadant. "Without this disappointing loss, we would have exceeded our earnings guidance for the quarter.

"Most of the composites loss was due to \$4.6 million of warranty expense primarily related to a new problem concerning excessive oxidation that affects the integrity of the plastic used in some of our decking products. During the third quarter, we experienced a substantial number of claims related to this issue, and are exchanging product held by our distributors for new material. While we saw strong demand for our decking products, as evidenced by high bookings and revenues again this quarter, we believe this business will offer greater value in a company dedicated to serving the building or plastics industries. Therefore, we have decided to sell the composites business, and are in the process of evaluating potential buyers.

"In our core papermaking equipment business, the industry environment in North America and parts of Europe is improving as major paper manufacturers report profitability gains, yet capital spending increases by our customers continue to lag the recovery. We have positioned Kadant for an upturn by developing technologies that improve papermaking productivity and quality and focusing on sales of aftermarket parts and services. At our largest subsidiary in Europe, we have appointed a new president and are reviewing alternatives, including restructuring, for returning this operation to profitability.

"In China, demand for our stock-preparation products remains strong. Just after quarter-end, we received an order for nearly \$4 million from a long-time customer for equipment to be used in the production of recycled packaging materials. We have additional contracts from China totaling approximately \$9 million, but are waiting to receive letters of credit or deposits before we record them as bookings. Assuming the financing of these contracts isn't further delayed, we should be off to a good start in China in the first quarter of 2005.

"As a result of our decision to sell the composites business, we will treat this business as a discontinued operation for accounting purposes going forward. Factoring in the loss in our European operation and timing issues in China, we expect to report, for continuing operations, GAAP diluted EPS of \$.06 to \$.08 for the fourth quarter of 2004, on revenues of \$40 million to \$42 million. For the full year, for continuing operations, this leads to a revised GAAP diluted EPS estimate of \$.79 to \$.81, on revenues of \$189 million to \$191 million.

"No question, we have a lot of work ahead to put Kadant back on track for earnings growth," Mr. Rainville added. "However, ongoing investment in our core business leaves us well-positioned for paper industry recovery in some parts of the world, and to take advantage of growth opportunities in others. With a cash balance of \$77 million at quarter-end, and no debt, we are positioned to improve shareholder value through a variety of actions, including internal investment, stock buybacks, and strategic acquisitions."

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Financial Highlights (unaudited)  
 (In thousands, except per share amounts and percentages)

| Condensed Consolidated Statement of Operations | Three Months Ended |                | Nine Months Ended |                |
|--|--------------------|----------------|-------------------|----------------|
|  | October 2, 2004    | Sept. 27, 2003 | October 2, 2004   | Sept. 27, 2003 |
| Revenues                                       | \$ 53,277          | \$ 45,906      | \$ 162,786        | \$ 153,065     |
| Costs and Operating Expenses:                  |                    |                |                   |                |
| Cost of revenues                               | 38,671             | 27,768         | 107,288           | 95,062         |
| Selling, general and administrative expenses   | 15,254             | 12,775         | 45,688            | 39,669         |
| Research and development expenses              | 922                | 1,149          | 2,633             | 3,502          |
| Gain on sale of subsidiary                     | (149)              | -              | (149)             | -              |
| Restructuring and unusual items                | -                  | 157            | -                 | (23)           |
|  | 54,698             | 41,849         | 155,460           | 138,210        |

|   |          |          |          |          |
|---|----------|----------|----------|----------|
| Operating Income (Loss)                                 | (1,421)  | 4,057    | 7,326    | 14,855   |
| Interest Income   | 356      | 243      | 1,003    | 693      |
| Interest Expense  | (2)      | (11)     | (14)     | (39)     |
| Income (Loss) Before Income Taxes and Minority Interest | (1,067)  | 4,289    | 8,315    | 15,509   |
| Provision (Benefit) for Income Taxes                    | (568)    | 1,630    | 2,329    | 5,894    |
| Minority Interest Expense (Income)                      | (6)      | (4)      | 8        | 68       |
| Net Income (Loss)                                       | \$ (493) | \$ 2,663 | \$ 5,978 | \$ 9,547 |
| Earnings (Loss) per Share                               |          |          |          |          |
| Basic   | \$ (.04) | \$ .20   | \$ .42   | \$ .70   |
| Diluted   | \$ (.04) | \$ .19   | \$ .41   | \$ .69   |
| Weighted Average Shares                                 |          |          |          |          |
| Basic   | 13,977   | 13,632   | 14,139   | 13,602   |
| Diluted   | 13,977   | 14,041   | 14,480   | 13,905   |

|  | Three Months Ended |                | Nine Months Ended |                |
|--|--------------------|----------------|-------------------|----------------|
|  | October 2, 2004    | Sept. 27, 2003 | October 2, 2004   | Sept. 27, 2003 |
| Adjusted Diluted Earnings (Loss) per Share (a) |                    |                |                   |                |
| GAAP Diluted Earnings (Loss) per Share         | \$ (.04)           | \$ .19         | \$ .41            | \$ .69         |
| Gain on Sale of Subsidiary                     | (.01)              | -              | (.01)             | -              |
| Restructuring and Unusual Items                | -                  | .01            | -                 | -              |
| Income Taxes (b)                               | (.01)              | -              | (.04)             | -              |
|  | \$ (.06)           | \$ .20         | \$ .36            | \$ .69         |

|  | Three Months Ended |                | Nine Months Ended |                |
|--|--------------------|----------------|-------------------|----------------|
|  | October 2, 2004    | Sept. 27, 2003 | October 2, 2004   | Sept. 27, 2003 |
| Business Segment Information   |                    |                |                   |                |
| Revenues:  |                    |                |                   |                |
| Pulp and Papermaking Equipment and Systems   | \$ 47,669          | \$ 42,023      | \$ 144,166        | \$ 138,254     |
| Composite and Fiber-based Products   | 5,608              | 3,883          | 18,620            | 14,811         |
|  | \$ 53,277          | \$ 45,906      | \$ 162,786        | \$ 153,065     |
| Gross Profit Margin:   |                    |                |                   |                |
| Pulp and Papermaking Equipment and Systems   | 39%                | 42%            | 39%               | 39%            |
| Composite and Fiber-based Products   | (75%)              | 11%            | (9%)              | 28%            |
|  | 27%                | 40%            | 34%               | 38%            |
| Operating Income (Loss):   |                    |                |                   |                |
| Pulp and Papermaking Equipment and Systems   | \$ 5,595           | \$ 5,702       | \$ 18,090         | \$ 17,633      |
| Composite and Fiber-based Products (c)   | (5,611)            | (669)          | (6,143)           | 314            |
| Corporate  | (1,405)            | (976)          | (4,621)           | (3,092)        |
|  | \$ (1,421)         | \$ 4,057       | \$ 7,326          | \$ 14,855      |
| Adjusted Operating Income (Loss)(Excludes Restructuring and Unusual Items and Gain on Sale of Subsidiary) (a): |                    |                |                   |                |
| Pulp and Papermaking Equipment and Systems (d)   | \$ 5,446           | \$ 5,859       | \$ 17,941         | \$ 17,610      |
| Composite and Fiber-based Products   | (5,611)            | (669)          | (6,143)           | 314            |
| Corporate  | (1,405)            | (976)          | (4,621)           | (3,092)        |
|  | \$ (1,570)         | \$ 4,214       | \$ 7,177          | \$ 14,832      |

| Business Segment Information (continued)   | Three Months Ended |                | Nine Months Ended |                |
|--|--------------------|----------------|-------------------|----------------|
|  | October 2, 2004    | Sept. 27, 2003 | October 2, 2004   | Sept. 27, 2003 |
| <b>Bookings:</b>                           |                    |                |                   |                |
| Pulp and Papermaking Equipment and Systems | \$ 40,392          | \$ 44,559      | \$ 140,432        | \$ 141,203     |
| Composite and Fiber-based Products         | 5,222              | 2,638          | 17,325            | 10,463         |
|  | \$ 45,614          | \$ 47,197      | \$ 157,757        | \$ 151,666     |
| <b>Capital Expenditures:</b>               |                    |                |                   |                |
| Pulp and Papermaking Equipment and Systems | \$ 291             | \$ 537         | \$ 1,126          | \$ 1,098       |
| Composite and Fiber-based Products         | 179                | 585            | 479               | 1,461          |
| Corporate                                  | 5                  | -              | 16                | 11             |
|  | \$ 475             | \$ 1,122       | \$ 1,621          | \$ 2,570       |

| Cash Flow and Other Data              | Three Months Ended |                | Nine Months Ended |                |
|---------------------------------------|--------------------|----------------|-------------------|----------------|
|                                       | October 2, 2004    | Sept. 27, 2003 | October 2, 2004   | Sept. 27, 2003 |
| Cash Provided by Operations           | \$ 388             | \$ 16,953      | \$ 9,265          | \$ 20,011      |
| Depreciation and Amortization Expense | 1,194              | 1,248          | 3,613             | 3,855          |

| Balance Sheet Data       | October 2, 2004                 | January 3, 2004 |
|--------------------------|---------------------------------|-----------------|
|                          | Cash and Short-term Investments | \$ 77,101       |
| Short-term Debt          | -                               | 598             |
| Shareholders' Investment | 211,875                         | 211,758         |

(a) In addition to the financial measures prepared in accordance with generally accepted accounting principles (GAAP), we use the non-GAAP financial measures of adjusted diluted EPS and adjusted operating income, which exclude restructuring and other non-recurring items. We exclude these items because they are outside our normal operations. We believe that providing such non-GAAP measures helps investors to gain a more meaningful understanding of our operating results from period to period, and is consistent with how we measure our performance. The non-GAAP financial measures included in this press release are not meant to be considered superior to or a substitute for results of operations prepared in accordance with GAAP. In addition, the non-GAAP financial measures included in this press release may be different from, and therefore may not be comparable to, similar measures used by other companies.

(b) Represents effect of reduction in tax reserves of \$195 and \$581 in the three- and nine-month periods ended October 2, 2004, respectively.

(c) Includes operating losses of \$5,689 and \$6,991 in the three- and nine-month periods ended October 2, 2004, respectively, and \$771 and \$661 in the three- and nine-month periods ended September 27, 2003, respectively, from the composite building products business.

(d) Excludes gain on sale of subsidiary of \$149 in the three- and nine-month periods ended October 2, 2004, respectively, and restructuring and unusual items of \$157 and \$(23) in the three- and nine-month periods ended September 27, 2003, respectively.

Kadant will hold its earnings conference call on Thursday, October 28, 2004, at 11 a.m. Eastern time. To listen, call 800-709-2159 within the U.S., or 973-582-2810 outside the U.S. You can also listen to the call live on the Web by visiting [www.kadant.com](http://www.kadant.com) and clicking on "Investors." An audio archive of the call will be available on our Web site until November 26, 2004.

Kadant Inc. is a leading supplier of a range of products for the global papermaking and paper recycling industries, including stock-preparation equipment, water-management systems, and paper machine accessories. We also develop and manufacture composite building materials produced from recycled fiber and plastic. Kadant, based in Acton, Massachusetts, had approximately \$204 million in revenues in 2003 and 1,000 employees worldwide. For more information, please visit [www.kadant.com](http://www.kadant.com).

The following constitutes a "Safe Harbor" statement under the Private Securities Litigation Reform Act of 1995: This press release contains forward-looking statements that involve a number of risks and uncertainties, including forward-looking statements regarding the potential improvement or recovery of the paper industry, our projected operations, the future performance of our businesses, opportunities to improve shareholder value, the potential warranty issues associated with our composite building products business and the possible sale of that business, and orders from China. Important factors that could cause actual results to differ materially from those indicated by such statements are set forth under the heading "Risk Factors" in Kadant's quarterly report on Form 10-Q for the period ended July 3, 2004. These include risks and uncertainties relating to our dependence on the pulp and paper industry; international sales and operations; competition; ability to manufacture and distribute composite building products, and the seasonality in sales and the long-term performance of such products; availability of raw materials and exposure to commodity price fluctuations related to the manufacture of composite and fiber-based products; acquisition strategy; protection of patents and proprietary rights; fluctuations in quarterly operating results; and anti-takeover provisions. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future events, or otherwise.