

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(mark one)

- ☒ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities
Exchange Act of 1934 for the Quarter Ended September 29, 2001
- ☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities
Exchange Act of 1934

Commission File Number 1-11406

KADANT INC.

(Exact name of Registrant as specified in its charter)

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

245 Winter Street 02451
Waltham, Massachusetts
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (781) 370-1650

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

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock, as of the latest practicable date.

Class	Outstanding at October 29, 2001
-----	-----
Common Stock, \$.01 par value	12,227,147

PART I - Financial Information

Item 1 - Financial Statements

KADANT INC.

Consolidated Balance Sheet
(Unaudited)

Assets

(In thousands)	September 29, 2001	December 30, 2000

Current Assets:		
Cash and cash equivalents	\$147,446	\$ 62,461
Available-for-sale investments, at quoted market value (amortized cost of \$16,755 and \$86,104)	16,755	86,137
Advance to affiliate	-	5,704
Accounts receivable, less allowances of \$3,424 and \$2,182	38,558	43,866
Unbilled contract costs and fees	10,849	8,029
Inventories:		
Raw materials and supplies	14,169	13,218

Work in process	7,857	4,825
Finished goods (includes \$2,029 and \$3,765 at customer locations)	14,516	15,034
Deferred tax asset	10,483	8,879
Other current assets	4,495	3,625
	-----	-----
	265,128	251,778
	-----	-----
Property, Plant, and Equipment, at Cost	71,786	67,646
Less: Accumulated depreciation and amortization	42,854	38,064
	-----	-----
	28,932	29,582
	-----	-----
Other Assets	11,724	13,755
	-----	-----
Goodwill (Note 6)	116,804	119,100
	-----	-----
	\$422,588	\$414,215
	=====	=====

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2

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KADANT INC.

Consolidated Balance Sheet (continued) (Unaudited)

Liabilities and Shareholders' Investment

(In thousands except share amounts)	September 29, 2001	December 30, 2000
	-----	-----
Current Liabilities:		
Current maturities of long-term obligations	\$ 562	\$ 562
Accounts payable	24,468	21,921
Accrued payroll and employee benefits	8,859	7,727
Accrued income taxes	8,131	4,986
Accrued warranty costs	4,438	5,666
Deferred revenue	1,932	3,600
Customer deposits	2,352	3,476
Other accrued expenses	11,699	12,433
Common stock of subsidiary subject to redemption (at redemption value)	14,883	17,026
Due to Thermo Electron Corporation and its affiliated companies	-	1,284
	-----	-----
	77,324	78,681
	-----	-----
Deferred Income Taxes and Other Deferred Items	9,308	8,042
	-----	-----
Long-term Obligations:		
Subordinated convertible debentures	153,000	153,000
Notes payable	1,141	1,650
	-----	-----
	154,141	154,650
	-----	-----
Minority Interest (Note 5)	296	2,209
	-----	-----
Shareholders' Investment:		
Common stock, \$.01 par value, 150,000,000 shares authorized;		

12,732,455 shares issued (Note 7)	127	127
Capital in excess of par value	79,801	77,231
Retained earnings	141,144	133,522
Treasury stock at cost, 505,308 and 455,146 shares (Note 7)	(21,345)	(20,758)
Deferred compensation	(13)	(36)
Accumulated other comprehensive items (Notes 2 and 6)	(18,195)	(19,453)
	-----	-----
	181,519	170,633
	-----	-----
	\$422,588	\$414,215
	=====	=====

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

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3

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KADANT INC.

Consolidated Statement of Income (Unaudited)

(In thousands except per share amounts)	Three Months Ended	
	September 29, 2001	September 30, 2000
	-----	-----
Revenues	\$56,085	\$58,315
	-----	-----
Costs and Operating Expenses:		
Cost of revenues	35,458	36,293
Selling, general, and administrative expenses (Notes 9 and 11)	14,613	14,438
Research and development expenses	1,644	1,987
Restructuring costs (Note 16)	588	-
Gain on sale of property	-	(729)
	-----	-----
	52,303	51,989
	-----	-----
Operating Income	3,782	6,326
Interest Income	1,574	2,868
Interest Expense	(1,872)	(1,866)
	-----	-----
Income Before Provision for Income Taxes and Minority Interest	3,484	7,328
Provision for Income Taxes	1,452	2,840
Minority Interest (Income) Expense	(13)	156
	-----	-----
Net Income	\$ 2,045	\$ 4,332
	=====	=====
Basic and Diluted Earnings per Share (Notes 3 and 7)	\$.17	\$.35
	=====	=====
Weighted Average Shares (Notes 3 and 7):		
Basic	12,273	12,261
	=====	=====
Diluted	12,348	12,284
	=====	=====

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

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4

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KADANT INC.

Consolidated Statement of Income
(Unaudited)

(In thousands except per share amounts)	Nine Months Ended	
	September 29, 2001	September 30, 2000
Revenues	\$171,717	\$176,802
Costs and Operating Expenses:		
Cost of revenues	107,738	108,830
Selling, general, and administrative expenses (Notes 9 and 11)	45,054	46,018
Research and development expenses	5,307	5,803
Restructuring costs (Note 16)	588	-
Gain on sale of property and business	-	(1,700)
	158,687	158,951
Operating Income	13,030	17,851
Interest Income	5,527	8,062
Interest Expense	(5,616)	(5,621)
Income Before Provision for Income Taxes, Minority Interest, and Cumulative Effect of Change in Accounting Principle	12,941	20,292
Provision for Income Taxes	5,407	8,140
Minority Interest (Income) Expense	(87)	350
Income Before Cumulative Effect of Change in Accounting Principle	7,621	11,802
Cumulative Effect of Change in Accounting Principle (net of income taxes of \$580)	-	(870)
Net Income	\$ 7,621	\$ 10,932
Basic and Diluted Earnings per Share Before Cumulative Effect of Change in Accounting Principle (Notes 3 and 7)	\$.62	\$.96
Basic and Diluted Earnings per Share (Notes 3 and 7)	\$.62	\$.89
Weighted Average Shares (Notes 3 and 7):		
Basic	12,276	12,255
Diluted	12,311	12,301

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

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KADANT INC.

Consolidated Statement of Cash Flows
(Unaudited)

Nine Months Ended	
September 29,	September 30,

(In thousands)	2001	2000
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Operating Activities:		
Net income	\$ 7,621	\$ 10,932
Adjustments to reconcile net income to net cash provided by operating activities:		
Cumulative effect of change in accounting principle	-	870
Depreciation and amortization	7,093	7,254
Provision for losses on accounts receivable	1,081	817
Minority interest (income) expense (Note 5)	(87)	350
Gain on sale of business and property	-	(1,700)
Other noncash items	(17)	(184)
Changes in current accounts, excluding the effects of acquisitions and dispositions:		
Accounts receivable	4,046	13,719
Inventories and unbilled contract costs and fees	(6,366)	(5,938)
Other current assets	(3,968)	264
Accounts payable	1,998	389
Other current liabilities	(1,490)	(10,809)
	-----	-----
Net cash provided by operating activities	9,911	15,964
	-----	-----
Investing Activities:		
Acquisitions, net of cash acquired	-	(3,302)
Acquisition of capital equipment and technology	-	(1,200)
Proceeds from sale of property	-	4,109
Advances from affiliate, net	5,704	87,693
Purchases of available-for-sale investments	-	(71,000)
Proceeds from maturities of available-for-sale investments	69,350	60,619
Purchases of property, plant, and equipment	(3,750)	(3,956)
Payments received on note for sale of property	1,800	200
Other, net	5	84
	-----	-----
Net cash provided by investing activities	73,109	73,247
	-----	-----
Financing Activities:		
Transfer from Thermo Electron Corporation	1,309	-
Net proceeds from issuance of Company and subsidiary common stock	490	585
Purchase of Company common stock	(587)	-
Repayments of long-term obligations	(509)	-
	-----	-----
Net cash provided by financing activities	\$ 703	\$ 585
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KADANT INC.

Consolidated Statement of Cash Flows (continued)
(Unaudited)

(In thousands)	Nine Months Ended	
	September 29, 2001	September 30, 2000
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Exchange Rate Effect on Cash	\$ 1,262	\$ (3,008)
	-----	-----
Increase in Cash and Cash Equivalents	84,985	86,788
Cash and Cash Equivalents at Beginning of Period	62,461	39,254
	-----	-----
Cash and Cash Equivalents at End of Period	\$147,446	\$126,042
	=====	=====

Noncash Activities:

Fair value of assets of acquired companies	\$ -	\$ 6,345
Cash paid for acquired companies	-	(3,889)
Note payable for acquired companies	-	(795)
	-----	-----
Liabilities assumed of acquired companies	\$ -	\$ 1,661
	=====	=====
Amounts forgiven in exchange for the 49% minority interest in Kadant Composites Inc. (Note 5)	\$ 2,053	\$ -
	=====	=====

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

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7

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KADANT INC.

Notes to Consolidated Financial Statements

1. General

The interim consolidated financial statements presented have been prepared by Kadant Inc., (the Company, formerly Thermo Fibertek Inc.) (Note 7) without audit and, in the opinion of management, reflect all adjustments of a normal recurring nature necessary for a fair statement of the financial position at September 29, 2001, the results of operations for the three- and nine-month periods ended September 29, 2001, and September 30, 2000, and the cash flows for the nine-month periods ended September 29, 2001, and September 30, 2000. Interim results are not necessarily indicative of results for a full year.

Historical financial results have been restated to reflect the adoption of Securities and Exchange Commission Staff Accounting Bulletin No. 101 "Revenue Recognition in Financial Statements" effective as of January 2, 2000. The consolidated balance sheet presented as of December 30, 2000, has been derived from the consolidated financial statements that have been audited by the Company's independent public accountants. The consolidated financial statements and notes are presented as permitted by Form 10-Q and do not contain certain information included in the annual financial statements and notes of the Company. The consolidated financial statements and notes included herein should be read in conjunction with the financial statements and notes included in the Company's Annual Report on Form 10-K for the fiscal year ended December 30, 2000, filed with the Securities and Exchange Commission.

2. Comprehensive Income

Comprehensive income combines net income and "other comprehensive items" that represent certain amounts that are reported as components of shareholders' investment in the accompanying balance sheet, including foreign currency translation adjustments, unrealized net of tax gains and losses on available-for-sale investments, and deferred gains and losses on foreign currency contracts (Note 6). During the third quarters of 2001 and 2000, the Company had comprehensive income of \$4,041,000 and \$2,992,000, respectively. During the first nine months of 2001 and 2000, the Company had comprehensive income of \$8,900,000 and \$4,381,000, respectively.

3. Earnings per Share

Basic and diluted earnings per share were calculated as follows:

	Three Months Ended		Nine Months Ended	
	September 29, 2001	September 30, 2000	September 29, 2001	September 30, 2000
(In thousands except per share amounts)				
Basic				
Income Before Cumulative Effect of				
Change in Accounting Principle	\$ 2,045	\$ 4,332	\$ 7,621	\$11,802

Cumulative Effect of Change in Accounting Principle (net of income taxes of \$580)	-	-	-	(870)
	-----	-----	-----	-----
Net Income	\$ 2,045	\$ 4,332	\$ 7,621	\$10,932
	-----	-----	-----	-----
Weighted Average Shares	12,273	12,261	12,276	12,255
	-----	-----	-----	-----
Basic Earnings per Share:				
Income before cumulative effect of change in accounting principle	\$.17	\$.35	\$.62	\$.96
Cumulative effect of change in accounting principle	-	-	-	(.07)
	-----	-----	-----	-----
	\$.17	\$.35	\$.62	\$.89
	=====	=====	=====	=====

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8

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KADANT INC.

3. Earnings per Share (continued)

	Three Months Ended		Nine Months Ended	
	September 29, 2001	September 30, 2000	September 29, 2001	September 30, 2000
(In thousands except per share amounts)				
	-----	-----	-----	-----
Diluted				
Income Before Cumulative Effect of Change in Accounting Principle	\$ 2,045	\$ 4,332	\$ 7,621	\$11,802
Cumulative Effect of Change in Accounting Principle (net of income taxes of \$580)	-	-	-	(870)
	-----	-----	-----	-----
Net Income	\$ 2,045	\$ 4,332	\$ 7,621	\$10,932
Effect of Majority-owned Subsidiary's Dilutive Securities	-	(5)	-	(11)
	-----	-----	-----	-----
Income Available to Common Shareholders, as Adjusted	\$ 2,045	\$ 4,327	\$ 7,621	\$10,921
	-----	-----	-----	-----
Weighted Average Shares	12,273	12,261	12,276	12,255
Effect of Stock Options	75	23	35	46
	-----	-----	-----	-----
Weighted Average Shares, as Adjusted	12,348	12,284	12,311	12,301
	-----	-----	-----	-----
Diluted Earnings per Share:				
Income before cumulative effect of change in accounting principle	\$.17	\$.35	\$.62	\$.96
Cumulative effect of change in accounting principle	-	-	-	(.07)
	-----	-----	-----	-----
	\$.17	\$.35	\$.62	\$.89
	=====	=====	=====	=====

Options to purchase 509,100 and 473,400 shares of common stock for the third quarters of 2001 and 2000, respectively, and 447,000 and 281,800 shares of common stock for the first nine months of 2001 and 2000, respectively, were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price for the common stock and their effect would have been antidilutive.

In addition, the computation of diluted earnings per share for each period excludes the effect of assuming the conversion of the Company's \$153,000,000

principal amount of 4 1/2% subordinated convertible debentures, convertible at \$60.50 per share, because the effect would be antidilutive.

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9

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KADANT INC.

4. Business Segment Information

(In thousands)	Three Months Ended		Nine Months Ended	
	September 29, 2001	September 30, 2000	September 29, 2001	September 30, 2000
Revenues:				
Pulp and Papermaking Equipment and Systems	\$ 55,174	\$ 57,043	\$165,847	\$171,061
Composite and Fiber-based Products (a)	911	1,276	5,870	5,755
Intersegment sales elimination (b)	-	(4)	-	(14)
	-----	-----	-----	-----
	\$ 56,085	\$ 58,315	\$171,717	\$176,802
	=====	=====	=====	=====
Income Before Provision for Income Taxes, Minority Interest, and Cumulative Effect of Change in Accounting Principle:				
Pulp and Papermaking Equipment and Systems (c)	\$ 6,773	\$ 7,110	\$ 20,156	\$ 21,164
Composite and Fiber-based Products (a) (d)	(2,204)	(374)	(4,440)	(1,415)
Corporate (e)	(787)	(410)	(2,686)	(1,898)
	-----	-----	-----	-----
Total Operating Income	3,782	6,326	13,030	17,851
Interest Income (Expense), Net	(298)	1,002	(89)	2,441
	-----	-----	-----	-----
	\$ 3,484	\$ 7,328	\$ 12,941	\$ 20,292
	=====	=====	=====	=====
Capital Expenditures:				
Pulp and Papermaking Equipment and Systems	\$ 399	\$ 336	\$ 1,131	\$ 1,056
Composite and Fiber-based Products	961	931	2,619	2,900
	-----	-----	-----	-----
	\$ 1,360	\$ 1,267	\$ 3,750	\$ 3,956
	=====	=====	=====	=====

- (a) Reflects the sale of the Company's fiber-recovery and water-clarification services plant in September 2000. Operating income includes restructuring costs of \$18 and gain on the sale of property of \$729 in the third quarter and first nine months of 2001 and in the third quarter and first nine months of 2000, respectively.
- (b) Intersegment sales are accounted for at prices that are representative of transactions with unaffiliated parties.
- (c) Includes restructuring costs of \$570 in the third quarter and first nine months of 2001.
- (d) Includes operating losses from our startup composite building products business of \$1,335, \$530, \$2,973, and \$1,399 in the three months ended September 29, 2001, the three months ended September 30, 2000, the nine months ended September 29, 2001, and the nine months ended September 30, 2000, respectively.
- (e) Primarily general and administrative expenses. Includes gain on sale of business of \$971 and a charge of \$600 to provide for a customer dispute in the first nine months of 2000.

5. Acquisition of Composites Venture Minority Interest

In January 2001, the Company's Thermo Fibergen subsidiary acquired the outstanding 49% equity interest in Kadant Composites Inc. (formerly NEXT Fiber Products Inc.) from the minority investor (the Seller). Kadant Composites was a joint venture formed in 1999 to develop, produce, and market fiber-based composite products primarily for the building industry. In exchange for the 49%

minority interest, Thermo Fibergen agreed to forgive

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10

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KADANT INC.

5. Acquisition of Composites Venture Minority Interest (continued)

\$2,053,000 due from the Seller which related to the Seller's investment in Kadant Composites. The excess of assigned fair value of net assets acquired from the buyout over the acquisition cost resulted in a reduction in the intangible asset recorded at the time of Thermo Fibergen's initial investment in Kadant Composites.

6. Recent Accounting Pronouncements

Accounting for Derivative Instruments and Hedging Activities

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

Forward currency exchange contracts are used primarily by the Company to hedge certain operational ("cash-flow" hedges) and balance sheet ("fair value" hedges) exposures resulting from changes in currency exchange rates. Such exposures primarily result from portions of the Company's operations and assets that are denominated in currencies other than the functional currencies of the businesses conducting the operations or holding the assets. The Company enters into currency exchange contracts to hedge anticipated product sales and recorded accounts receivable made in the normal course of business, and accordingly, the hedges are not speculative in nature. The Company does not hold or transact in financial instruments for purposes other than risk management.

The Company records its currency exchange contracts at fair value in its consolidated balance sheet as other current assets or other accrued expenses and, for cash flow hedges, the related gains or losses on these contracts are deferred as a component of other comprehensive items. These deferred gains and losses are recognized in income in the period in which the underlying anticipated transaction occurs. Unrealized gains and losses resulting from the impact of currency exchange rate movements on fair value hedges are recognized in earnings in the period in which the exchange rates change and offset the currency gains and losses on the underlying exposure being hedged. As of September 29, 2001, the amount of deferred unrealized gains and losses in other comprehensive income was not material.

"Business Combinations" and "Goodwill and Other Intangible Assets"

In July 2001, the Financial Accounting Standards Board (FASB) released for issuance SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS No. 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Under SFAS No. 142, effective for the fiscal year beginning December 30, 2001, amortization of goodwill to earnings will cease and instead, the carrying value of goodwill will be evaluated for impairment on at least an annual basis. Amortization of goodwill, on an after-tax basis, for the three-month and nine-month periods ended September 29, 2001, was \$584,000 and \$1,756,000, respectively. The Company is evaluating the impact of these impairment standards and has not yet determined the effect, if any, of adoption on its financial statements.

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11

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KADANT INC.

6. Recent Accounting Pronouncements (continued)

Accounting for the Impairment or Disposal of Long-Lived Assets

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement supercedes FASB Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of," and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations--Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." This statement requires that one accounting model be used for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired, and it broadens the presentation of discontinued operations to include more disposal transactions. The provisions of this statement are effective for financial statements issued for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years. The Company is evaluating the impact of this statement and has not yet determined the effect, if any, of adoption on its financial statements.

7. Name Change and Reverse Stock Split

The Company changed its name to Kadant Inc., traded under the ticker symbol "KAI" on the American Stock Exchange, and effected a one-for-five reverse split of its common stock on July 12, 2001. The name change and reverse stock split were approved by the Company's shareholders at the annual meeting of the shareholders on May 15, 2001. All share and per share information, including the conversion price of the Company's subordinated debt, has been restated to reflect the reverse stock split.

8. Spin Off

On January 31, 2000, Thermo Electron announced that, as part of a major reorganization plan, it planned to spin off its equity interest in the Company as a dividend to Thermo Electron shareholders. In February 2001, Thermo Electron received a favorable ruling from the Internal Revenue Service regarding the spin off. The IRS required that the Company raise additional equity capital in a public offering within one year of the spin off in the range of 10 to 20 percent of its outstanding shares. The offering will also support the Company's current business plan, which includes the repayment of debt, acquisitions, strategic partnerships, and investment in additional capacity for its composites business. On July 9, 2001, the Thermo Electron board of directors declared a dividend of all of its equity interest in the Company. The dividend was distributed on August 8, 2001 (Spinoff Date) to Thermo Electron shareholders of record on July 30, 2001. The distribution was on the basis of 0.0612 share of Company common stock for each share of Thermo Electron common stock outstanding.

9. Corporate Services Agreement

Prior to the spin off, the Company and Thermo Electron were parties to a corporate services agreement under which Thermo Electron's corporate staff provided certain administrative services for which the Company was assessed an annual fee equal to 0.8% of the Company's consolidated revenues. Effective April 2001, the fee under this agreement was reduced to 0.6% for the fiscal quarter ending June 30, 2001, and effective July 1, 2001, the fee was reduced to 0.4% of the Company's consolidated revenues for the fiscal quarter ending September 29, 2001. The corporate services agreement terminated as of the Spinoff Date and was replaced by a transition services agreement (Note 11).

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KADANT INC.

10. Plan and Agreement of Distribution

In connection with the spin off, the Company and Thermo Electron entered into a plan and agreement of distribution. The agreement provides, among other things, for restrictions relating to the Company's ability to use cash or incur debt during the time that Thermo Electron continues to guarantee the Company's \$153,000,000, 4 1/2% subordinated convertible debentures due 2004. These

restrictions include financial covenants requiring (1) the ratio of the Company's net indebtedness to net capitalization not to exceed 40% and (2) on a rolling four quarter basis, the sum of the Company's (a) operating income (excluding restructuring and other unusual items, such as gains on sales of assets, included in operating income), (b) amortization of goodwill and other intangible assets, and (c) interest income, to be at least four times greater than interest expense. In the event that the Company fails to comply with the financial covenants and has not cured its noncompliance within the applicable cure period, the Company will be obligated to relieve Thermo Electron of its obligations under all of its outstanding guarantees of the Company's performance and payment in connection with the Company's debentures. If required to satisfy this obligation to Thermo Electron, the Company could, among other things, refinance the Company's debentures, conduct an exchange offer for the Company's debentures, or repay in full the underlying obligation. In addition, in the event that the Company undergoes a change in control, the Company has agreed to fully cash collateralize or back with one or more letters of credit all of the Company's obligations under the debentures. The Company is in compliance with all covenants of the agreement.

11. Transition Services Agreement

In connection with the spin off, the Company and Thermo Electron entered into a transition services agreement. The agreement provides that Thermo Electron will continue to provide the Company with certain administrative services until December 29, 2001. The Company will pay a fee under this agreement equal to 0.4% and 0.2% of the Company's consolidated revenues for the fiscal quarters ending September 29, 2001 and December 29, 2001, respectively, plus out-of-pocket and third party expenses. The Company believes the charges under the transition services agreement are reasonable and the terms of the agreement are fair to the Company.

12. Tax Matters Agreement

Prior to the spin off, the Company and Thermo Electron were parties to a tax allocation agreement under which the Company and its subsidiaries were included in the consolidated federal and state income tax returns filed by Thermo Electron. The tax allocation agreement provided that in years in which these entities had taxable income, the Company would pay to Thermo Electron amounts comparable to the taxes the Company would have paid if the Company had filed separate tax returns. In years in which these entities include a loss, Thermo Electron would reimburse the Company the amount that the Company would have received if the Company had filed separate tax returns. The tax allocation agreement terminated as of the Spinoff Date at which time the Company and Thermo Electron entered into a tax matters agreement.

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

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13. Stock Option Exchange

In connection with the spin off, options to purchase shares of Thermo

Electron common stock held by the Company's employees were exchanged for options to purchase 563,829 shares of the Company's common stock. The resulting options in the Company's common stock maintained their intrinsic value, and their original option periods and vesting provisions in accordance with the methodology set forth in FASB Interpretation No. 44 "Accounting for Certain Transactions Involving Stock Compensation."

14. Preferred Stock

On May 15, 2001, at the annual meeting of the Company's shareholders, the shareholders voted to approve an amendment, previously adopted by the Company's board of directors, to the Company's Certificate of Incorporation to authorize 5,000,000 shares of preferred stock, \$.01 par value per share, for issuance by the Company's board of directors without further shareholder approval. Subsequently, the board of directors designated 15,000 shares of such preferred stock as Series A junior participating preferred stock for issuance under the Company's Shareholder Rights Plan (see below). The charter amendment effecting these actions was incorporated into the Company's restated Certificate of Incorporation filed on August 7, 2001. No such preferred stock has been issued by the Company.

15. Shareholder Rights Plan

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

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14

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KADANT INC.

16. Restructuring Costs

During the third quarter of 2001, the Company recorded restructuring costs of \$588,000, which were accounted for in accordance with Emerging Issues Task Force Pronouncement No. 94-3, for severance costs relating to 52 employees primarily in the manufacturing and sales functions at the Papermaking Equipment segment's domestic subsidiaries, all of whom were terminated by September 29, 2001. These actions were taken in an effort to improve profitability and were in response to a continued weak market environment. A summary of the changes in accrued restructuring costs, which are included in other accrued expenses in the accompanying balance sheet, follows:

(In thousands)	Severance	Other	Total
Balance at December 30, 2000	\$ -	\$ 32	\$ 32

Provision charged to expense	588	-	588
Usage	(305)	(32)	(337)
	-----	-----	-----
Balance at September 29, 2001	\$ 283	\$ -	\$ 283
	=====	=====	=====

The Company expects to pay most of the remaining accrued restructuring costs during the remainder of 2001.

17. Subsequent Event

Redemption of Thermo Fibergen Common Stock

During the period from September 1, 2001 through October 11, 2001, holders of Thermo Fibergen common stock and common stock redemption rights surrendered 1,030,562 shares of Thermo Fibergen common stock at a redemption price of \$12.75 per share in the final redemption period for the common stock redemption rights. Common stock redemption rights amounting to 970,487 were not surrendered for redemption by October 11, 2001, have expired, and are no longer listed for trading on the American Stock Exchange. In October 2001, Thermo Fibergen remitted \$13,140,000 for the surrendered shares, using a combination of available working capital and a \$6,000,000 loan from the Company to fund the redemption payment. The accrued liability for the payment is included in common stock of subsidiary subject to redemption in the September 29, 2001 balance sheet. Following the final redemption period, 10,522,087 shares of Thermo Fibergen common stock remain outstanding, including 10,407,600 shares held by the Company and 114,487 shares held by shareholders other than the Company.

Proposed Merger

In November 2001, the Company announced that it would acquire all of the outstanding shares of Thermo Fibergen's common stock held by shareholders other than the Company in exchange for \$12.75 per share in cash, without interest. As a result, Thermo Fibergen will become a wholly owned subsidiary of the Company. The proposed transaction will require Securities and Exchange Commission clearance of certain necessary filings, but will not require Thermo Fibergen board or shareholder approval. This transaction is expected to be completed during the fourth quarter of 2001.

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15

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KADANT INC.

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

Forward-looking statements, within the meaning of Section 21E of the Securities Exchange Act of 1934, are made throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations. For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words "believes," "anticipates," "plans," "expects," "seeks," "estimates," and similar expressions are intended to identify forward-looking statements. There are a number of important factors that could cause our results to differ materially from those indicated by such forward-looking statements, including those detailed under the heading "Risk Factors" in the Information Statement filed with the Securities and Exchange Commission as Exhibit 99.1 to our Current Report on Form 8-K on August 6, 2001.

Overview

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

market composite and fiber-based products, including composite building products.

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

Pulp and Papermaking Equipment and Systems Segment

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

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

Composite and Fiber-based Products Segment

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

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16

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KADANT INC.

Overview (continued)

In January 2001, we acquired the remaining 49% equity interest that we did not already own in Kadant Composites Inc. (formerly NEXT Fiber Products Inc.), which is responsible for our composite building products line (Note 5). We established a composite building products manufacturing facility in Green Bay, Wisconsin, and began limited production at the facility in 2000.

Prior to September 2000, this segment owned and operated a plant that provided water-clarification and fiber-recovery services to a host mill on a long-term contract basis. The plant, which we began operating in July 1998, cleaned and recycled water and long fiber for reuse in the papermaking process. We sold this plant to the host mill in September 2000, although we intend to continue operating in this line of business and are pursuing other fiber-recovery projects.

International Sales

During 2000, approximately 49% of our sales were to customers outside the United States, principally in Europe. We generally seek to charge our customers in the same currency in which our operating costs are incurred. However, our financial performance and competitive position can be affected by currency exchange rate fluctuations affecting the relationship between the U.S. dollar and foreign currencies. We reduce our exposure to currency fluctuations through the use of forward currency exchange contracts. We may enter into forward contracts to hedge certain firm purchase and sale commitments denominated in currencies other than our subsidiaries' functional currencies. These contracts principally hedge transactions denominated in U.S. dollars and French francs.

Industry Outlook

Our products are primarily sold to the pulp and paper industry. The paper industry is currently in a relatively severe down cycle, characterized by falling pulp and paper prices, decreased capital spending, and consolidation of paper companies within the industry. As paper companies continue to consolidate, they frequently reduce capacity and postpone or even cancel capacity addition or expansion projects. This trend, along with paper companies' actions to quickly reduce operating rates and restrict capital spending programs when they perceive weakness in their markets, has adversely affected our business. There has been a significant amount of downtime in the pulp and paper industry in 2001. This, coupled with the weakening conditions in the world economy in general and the strong U.S. dollar, will continue to produce a weak market environment that will soften demand for our products in the foreseeable future. The slowdown in the world economy and the paper industry is continuing and will delay any recovery expected in 2002. Our results for 2001 and possibly 2002 will be adversely affected by these conditions in the world economy and the pulp and paper industry. In the longer term, we expect the consolidation in the paper industry and improved capacity management will be favorable both to paper companies and to their suppliers.

Bookings in the third quarter of 2001 were disappointing in North America and Europe, although they remained strong in China. Our recycling business in North America has been particularly affected by the consolidations in the paper industry and high levels of machine shutdowns. As such, we expect earnings in the fourth quarter of 2001 for the company overall to be in the range of \$.14 to \$.17 per share, on revenues of \$48 to \$51 million. For the year 2001, we expect earnings per share of \$.76 to \$.79, on revenues of \$220 to \$223 million. Looking ahead to 2002, we estimate earnings for the year to increase to \$.85 to \$.95 per share by focusing on a more favorable product mix that includes higher-margin aftermarket sales, and reducing operating expenses in the Papermaking Equipment segment, as well as lowering operating losses in the composite building products business. The earnings estimate for 2002 excludes the favorable effect of ceasing goodwill amortization of approximately \$.19 per diluted share, and the possible unfavorable effect of impairment charges resulting from the adoption of FASB No. 141, 142, and 144 (Note 6). Revenues in 2002 are expected to be between \$215 and \$225 million. Although startups are difficult to forecast, our estimate of revenues from the composite building products business for the fourth quarter of 2001 is \$0.3 million to \$0.5 million, and for the year 2001 just below \$2 million. Revenues in 2002 are expected to be \$4 to \$6 million in this business. In October 2001, the Company terminated for nonperformance its International Distribution Agreement

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17

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KADANT INC.

Overview (continued)

that granted a distributor exclusive rights to distribute certain of the Company's composite building products in exchange for minimum purchase commitments. Therefore, we are now rebuilding and expanding our distribution network for composite building materials. We believe that the market for composite building products will grow as consumer awareness of the advantages of these products increases their acceptance as an alternative to traditional wood products.

Results of Operations

Third Quarter 2001 Compared With Third Quarter 2000

Revenues

Revenues decreased to \$56.1 million in the third quarter of 2001 from \$58.3 million in the third quarter of 2000. The unfavorable effects of currency translation due to the strengthening in value of the U.S. dollar relative to other currencies in countries in which we operate decreased revenues at the Papermaking Equipment segment by \$1.1 million in the third quarter of 2001.

Pulp and Papermaking Equipment and Systems Segment. Excluding the effects of currency translation, revenues in our Papermaking Equipment segment decreased \$0.7 million, or 1%. Revenues from that segment's accessories and water management product lines decreased \$0.6 million and \$0.3 million, respectively, primarily as a result of a decrease in demand in North America due to adverse

market conditions. Revenues from the Papermaking Equipment segment's stock-preparation equipment product line increased \$0.2 million as a result of an increase in export sales to China, largely offset by decreases in sales in North America and Europe.

Composite and Fiber-based Products Segment. The Composite and Fiber-based Products segment revenues decreased \$0.4 million, primarily due to a \$0.2 million decrease in sales from the fiber-based products business as a result of a decrease in demand from several of its largest agricultural carrier customers and a \$0.2 million decrease in revenues as a result of the sale of the fiber-recovery and water-clarification services plant in September 2000. These decreases were slightly offset by an increase of approximately \$0.1 million of sales from its recently introduced composite building products.

Gross Profit Margin

The gross profit margin decreased to 37% in the third quarter of 2001 from 38% in the third quarter of 2000. The gross margin decreased at the Composite and Fiber-based Products segment, primarily due to increased negative gross margins as a result of startup efforts at its new composite building products business, as well as under-absorbed manufacturing overhead as a result of lower revenues and production, including an increase of \$0.2 million in the cost of natural gas used in the production process at the fiber-based products business. The gross profit margin increased slightly to 39% from 38% at the Papermaking Equipment segment in the third quarters of 2001 and 2000, respectively.

Other Operating Expenses

Selling, general, and administrative expenses as a percentage of revenues increased slightly to 26% in the third quarter of 2001 from 25% in the third quarter of 2000, primarily due to a decrease in revenues at both business segments.

Research and development expenses decreased to \$1.6 million in the third quarter of 2001 compared with \$2.0 million in the third quarter of 2000, primarily at the Papermaking Equipment segment.

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18

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KADANT INC.

Third Quarter 2001 Compared With Third Quarter 2000 (continued)

Restructuring Costs

During the third quarter of 2001, the Company recorded restructuring costs of \$0.6 million for severance costs relating to 52 employees primarily in the manufacturing and sales functions at the Papermaking Equipment segment's domestic subsidiaries, all of whom were terminated by September 29, 2001. These actions were taken in an effort to improve profitability and were in response to a continued weak market environment (Note 16).

Gain on Sale of Property

In September 2000, the Company sold its interest in a fiber-recovery and water clarification services plant for \$3.6 million, resulting in a pretax gain of \$0.7 million.

Operating Income

Operating income decreased to \$3.8 million in the third quarter of 2001 from \$6.3 million in the third quarter of 2000. Excluding restructuring costs in 2001, operating income increased to \$7.3 million from \$7.1 million, an increase of 3%, at the Papermaking Equipment segment. Excluding restructuring costs in 2001 and gain on the sale of property in 2000, operating losses increased to \$2.2 million in 2001 from \$1.1 million in 2000 at the Composite and Fiber-based Products segment. Operating losses from the composite building products business were \$1.3 million and \$0.5 million in the third quarters of 2001 and 2000, respectively.

Interest Income and Expense

Interest income decreased to \$1.6 million in the third quarter of 2001 from \$2.9 million in the third quarter of 2000. Of the total decrease in interest income in 2001, approximately \$1.0 million was due to lower prevailing interest rates and \$0.3 million was due to lower average invested balances. We expect interest income to decrease in the remainder of 2001 and into 2002 as a result of the lower prevailing interest rates and lower investment balances due to the 2000 and 2001 redemptions of Thermo Fibergen's common stock. Interest expense was unchanged at \$1.9 million in the third quarters of 2001 and 2000.

Income Taxes

The effective tax rate was 42% in the third quarter of 2001, compared with 39% in the third quarter of 2000. The effective tax rates exceeded the statutory federal income tax rate primarily due to the impact of state income taxes and nondeductible expenses.

Minority Interest

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

Contingency

Sequa Corporation has made a claim in arbitration against us for \$3.5 million for alleged breach of the contract pursuant to which Sequa purchased the stock of our subsidiary, Thermo Wisconsin Inc., in February 1999. We have denied the charges and are defending the matter vigorously. Arbitration proceedings related to this claim were held in October 2001, and the Company is currently awaiting a decision. In the opinion of management, the ultimate resolution of this matter will not materially affect our financial statements.

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19

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KADANT INC.

First Nine Months 2001 Compared With First Nine Months 2000

Revenues

Revenues decreased to \$171.7 million in the first nine months of 2001 from \$176.8 million in the first nine months of 2000. The unfavorable effects of currency translation due to the strengthening in value of the U.S. dollar relative to other currencies in countries in which we operate decreased revenues at the Papermaking Equipment segment by \$4.2 million in the first nine months of 2001.

Pulp and Papermaking Equipment and Systems Segment. Excluding the results of acquisitions and the effect of currency translation, revenues in our Papermaking Equipment segment decreased \$1.8 million, or 1%. Revenues from that segment's accessories and water management product lines decreased \$3.9 million and \$1.1 million, respectively, primarily as a result of a decrease in demand in North America due to adverse market conditions. Revenues from the Papermaking Equipment segment's stock-preparation equipment product line increased \$3.6 million primarily as a result of increases in sales in Europe and export sales to China, offset in part by a decrease in sales in North America.

Composite and Fiber-based Products Segment. The Composite and Fiber-based Products segment revenues increased \$0.1 million, primarily due to a \$1.4 million increase in sales from its recently introduced composite building products. This increase was largely offset by a \$1.0 million decrease in revenues as a result of the sale of the fiber-recovery and water-clarification services plant in September 2000, and to a lesser extent, a \$0.3 million decrease in revenues at its fiber-based products business primarily due to a decrease in demand from two of its largest agricultural carrier customers, offset in part by a net increase in demand from other customers.

Gross Profit Margin

The gross profit margin decreased to 37% in the first nine months of 2001 from 38% in the first nine months of 2000. The gross profit margin decreased at the Composite and Fiber-based Products segment due to an increase of approximately \$0.6 million in the cost of natural gas used in the production process and, to a lesser extent, under-absorbed manufacturing overhead as a result of lower revenues and production at the fiber-based products business in 2001. In addition, the gross margin decreased in that segment due to increased negative gross margins as a result of startup efforts at its new composite building products business and the absence in 2001 of higher-margin revenues from the fiber-recovery and water-clarification services plant. The gross profit margin was unchanged at 39% at the Papermaking Equipment segment in the first nine months of 2001 and 2000.

Other Operating Expenses

Selling, general, and administrative expenses as a percentage of revenues remained unchanged at 26% in the first nine months of 2001 and 2000. Selling, general, and administrative expenses decreased to \$45.1 million in 2001 from \$46.0 million in 2000 primarily due to the effects of foreign currency translation.

Research and development expenses decreased slightly to \$5.3 million in the first nine months of 2001 compared with \$5.8 million in the first nine months of 2000, primarily at the Papermaking Equipment segment.

Restructuring Costs

During the third quarter of 2001, the Company recorded restructuring costs of \$0.6 million for severance costs relating to 52 employees primarily in the manufacturing and sales functions at the Papermaking Equipment segment's domestic subsidiaries, all of whom were terminated by September 29, 2001. These actions were taken in an effort to improve profitability and were in response to a continued weak market environment (Note 16).

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20

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KADANT INC.

First Nine Months 2001 Compared With First Nine Months 2000 (continued)

Gain on Sale of Property and Business

In June 2000, the Company sold its interest in a tissue mill for \$3.9 million in cash, resulting in a pretax gain of \$1.0 million.

In September 2000, the Company sold its interest in a fiber-recovery and water clarification services plant for \$3.6 million, resulting in a pretax gain of \$0.7 million.

Operating Income

Operating income decreased to \$13.0 million in first nine months of 2001 from \$17.9 million in the first nine months of 2000. Excluding restructuring costs in 2001, operating income decreased to \$20.7 million from \$21.2 million, a decrease of 2%, at the Papermaking Equipment segment. Excluding restructuring costs in 2001 and gain on the sale of property in 2000, operating losses increased to \$4.4 million in 2001 from \$2.1 million in 2000 at the Composite and Fiber-based Products segment. Operating losses from the composite building products business were \$3.0 million and \$1.4 million in the first nine months of 2001 and 2000, respectively.

Interest Income and Expense

Interest income decreased to \$5.5 million in the first nine months of 2001 from \$8.1 million in the first nine months of 2000. Of the total decrease in interest income in 2001, approximately \$1.6 million was due to lower prevailing interest rates and \$0.9 million was due to lower average invested balances. Interest expense was unchanged at \$5.6 million in the first nine months of 2001 and 2000.

Income Taxes

The effective tax rate was 42% in the first nine months of 2001 and 40% in the first nine months of 2000. The effective tax rates exceeded the statutory federal income tax rate primarily due to the impact of state income taxes and nondeductible expenses.

Minority Interest

Minority interest income in the first nine months of 2001 represents the minority investors' share of losses in our majority-owned subsidiaries. Minority interest expense in the first nine months of 2000 primarily represents accretion of Thermo Fibergen's common stock subject to redemption, offset in part by the minority investor's share of losses in Thermo Fibergen's Kadant Composites subsidiary.

Cumulative Effect of Change in Accounting Principle

In accordance with the requirements of Securities and Exchange Commission Staff Accounting Bulletin No. 101 "Revenue Recognition in Financial Statements," we adopted the pronouncement as of January 2, 2000, and recorded a charge in the first quarter of 2000 representing the cumulative effect of the change in accounting principle of \$0.9 million, net of an income tax benefit of \$0.6 million.

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21

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KADANT INC.

Liquidity and Capital Resources

Consolidated working capital was \$187.8 million at September 29, 2001, compared with \$173.1 million at December 30, 2000. Included in working capital are cash, cash equivalents, and available-for-sale investments of \$164.2 million at September 29, 2001, compared with \$148.6 million at December 30, 2000. In addition, we had \$5.7 million invested in an advance to an affiliate as of December 30, 2000. Of the total cash, cash equivalents, and available-for-sale investments at September 29, 2001, \$16.2 million and \$7.4 million was held by our majority-owned Thermo Fibergen and Fiberprep Inc. subsidiaries, respectively, and the remainder was held by us and our wholly owned subsidiaries. At September 29, 2001, \$51.4 million of our cash, cash equivalents, and available-for-sale investments was held by our foreign subsidiaries.

During the first nine months of 2001, cash of \$9.9 million was provided by operating activities compared with \$16.0 million in the first nine months of 2000. A decrease in accounts receivable provided cash of \$4.0 million, primarily at the Papermaking Equipment segment due to improved collection efforts and the timing of payments, and to a lesser extent, our overall decrease in revenues. An increase in inventories and unbilled contract costs and fees used cash of \$6.4 million, primarily at the Papermaking Equipment segment, including \$3.7 million related to an increase in work in process inventories, and \$2.7 million related to an increase in unbilled contract costs and fees due to the timing of billings. Cash of \$4.0 million was used for an increase in other current assets, including an increase of \$1.5 million in the deferred tax asset at the Composite and Fiber-based Products segment. An increase in accounts payable provided \$2.0 million of cash primarily in the Papermaking Equipment segment due to the timing of payments.

Our investing activities, excluding available-for-sale investments and advance to affiliate activity, used \$1.9 million of cash in the first nine months of 2001, compared with \$4.1 million in the first nine months of 2000. During the first nine months of 2001, we purchased property, plant, and equipment for \$3.8 million, including \$2.6 million at Thermo Fibergen, offset in part by the collection of \$1.8 million from a note receivable related to Thermo Fibergen's September 2000 sale of its fiber-recovery and water-clarification systems plant.

Our financing activities provided cash of \$0.7 million in the first nine months of 2001, compared with \$0.6 million in the first nine months of 2000. During the first nine months of 2001, we used \$0.5 million to fund the repayment of a long-term obligation and \$0.6 million to fund the purchase of our common stock, offset in part by \$0.5 million of cash provided by the issuance of our common stock and subsidiary common stock through the exercise of stock options.

In September 2001, our board of directors authorized the repurchase, through September 24, 2002, of up to \$50 million of our debt and equity securities in the open market, or in negotiated transactions. As of September 29, 2001, we had \$49.4 million remaining under this authorization. In addition, during the third quarter of 2001, cash of \$1.3 million was provided by a transfer of cash and associated liability from Thermo Electron in connection with the spin off.

During the month of September 2000, the initial redemption period, holders of Thermo Fibergen's common stock and common stock redemption rights surrendered 2,713,951 shares of Thermo Fibergen's common stock at a redemption price of \$12.75 per share, for a total of \$34.6 million. In October 2000, Thermo Fibergen used available working capital to fund the payment and retired these shares immediately following the redemption. During the period from September 1, 2001 through October 11, 2001, holders of Thermo Fibergen common stock and common stock redemption rights surrendered 1,030,562 shares of Thermo Fibergen common stock at a redemption price of \$12.75 per share in the final redemption period for the common stock redemption rights. Common stock redemption rights amounting to 970,487 were not surrendered for redemption by October 11, 2001, have expired, and are no longer listed for trading on the American Stock Exchange. In October 2001, Thermo Fibergen remitted \$13.1 million for the surrendered shares, using a combination of available working capital and a \$6,000,000 loan from us to fund the redemption payment. The accrued liability for the payment is included in common stock of subsidiary subject to redemption in the September 29, 2001 balance sheet. Following the final redemption period, 10,522,087 shares of Thermo Fibergen common stock remain outstanding, including 10,407,600 shares held by us and 114,487 shares held by shareholders other than us.

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22

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KADANT INC.

Liquidity and Capital Resources (continued)

In November 2001, we announced that we would acquire all of the outstanding shares of Thermo Fibergen's common stock held by shareholders other than us in exchange for \$12.75 per share in cash, without interest. As a result, Thermo Fibergen will become our wholly owned subsidiary. The proposed transaction will require Securities and Exchange Commission clearance of certain necessary filings, but will not require Thermo Fibergen board or shareholder approval. This transaction is expected to be completed during the fourth quarter of 2001.

At September 29, 2001, we had \$78.6 million of undistributed foreign earnings that could be subject to tax if remitted to the U.S. We do not currently intend to repatriate undistributed foreign earnings into the U.S., and do not expect that this will have a material adverse effect on our current liquidity.

In compliance with the IRS ruling on the spin off, we intend to issue equity in the range of 10 to 20 percent of our outstanding common stock within one year of the distribution to support our current business plan, which includes the repayment of debt, acquisitions, strategic partnerships and investment in additional capacity for our composite building products business (Note 8).

Our net debt (calculated as total short- and long-term debt and common stock of subsidiary subject to redemption, less cash, cash equivalents, advance to affiliate, and available-for-sale investments) was \$5.4 million at September 29, 2001, compared with \$17.9 million at December 30, 2000.

During the remainder of 2001, we plan to make expenditures for property, plant, and equipment of approximately \$1.3 million. Included in this amount is \$0.9 million for Thermo Fibergen, which intends to make capital expenditures to develop and expand its composite building products business. Our ability to use our cash and to incur additional debt will be limited by financial covenants in our distribution agreement with Thermo Electron (Note 10). These financial covenants require (1) the ratio of our net indebtedness to net capitalization not to exceed 40% and (2) on a rolling four quarter basis, the sum of our (a) operating income (excluding restructuring and other unusual items, such as gains on sales of assets, included in operating income), (b) amortization of goodwill and other intangible assets, and (c) interest income, to be at least four times greater than interest expense. We are in compliance with all the financial covenants of the agreement. We believe that our existing resources are

sufficient to meet the capital requirements of our existing operations for the foreseeable future.

Item 3 - Quantitative and Qualitative Disclosures About Market Risk

Our exposure to market risk from changes in interest rates, equity prices, and foreign currency exchange rates has not changed materially from our exposure at year-end 2000.

PART II - OTHER INFORMATION

Item 6 - Exhibits and Reports on Form 8-K

(a) Exhibits

See Exhibit Index on the page immediately preceding exhibits.

(b) Reports on Form 8-K

On July 12, 2001, the Company filed a Current Report on Form 8-K with respect to the spin off of the Company from Thermo Electron Corporation, including a preliminary information statement.

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23

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KADANT INC.

Item 6 - Exhibits and Reports on Form 8-K (continued)

On July 17, 2001, the Company filed a Current Report on Form 8-K with respect to the Company's Shareholder Rights Plan.

On July 20, 2001, the Company filed a Current Report on Form 8-K with respect to the Company's financial results for the quarter ended June 30, 2001.

On August 6, 2001, the Company filed a Current Report on Form 8-K with respect to the spin off of the Company from Thermo Electron Corporation, including a definitive information statement.

On August 9, 2001, the Company filed a Current Report on Form 8-K with respect to the completion of the spin off of the Company from Thermo Electron Corporation.

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24

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KADANT INC.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized as of the 9th day of November 2001.

KADANT INC.

/s/ Thomas M. O'Brien

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

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25

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KADANT INC.

EXHIBIT INDEX

Exhibit
Number

Description of Exhibit

10	Amended and Restated Equity Incentive Plan.
99	Press Release dated November 9, 2001.

[COMPANY LETTERHEAD]

For more information, please call Thomas M. O'Brien at 781-370-1650

KADANT TO TAKE THERMO FIBERGEN PRIVATE

WALTHAM, Mass., November 9, 2001 - Kadant Inc. (ASE: KAI) today announced plans to take private its majority-owned subsidiary, Thermo Fibergen Inc. (ASE: TFG), by acquiring the minority interest in Thermo Fibergen for \$12.75 per share in cash. This is the same price per share paid by Thermo Fibergen in its recently completed redemption of its shares of common stock. As of October 26, 2001, there were 114,487 shares of Thermo Fibergen common stock held by persons other than Kadant.

Kadant currently owns approximately 98.9 percent of the outstanding shares of Thermo Fibergen's common stock. Because Kadant's ownership is more than 90 percent, it expects to acquire Thermo Fibergen's minority interest through a "short-form" merger in Delaware.

The proposed short-form merger of Thermo Fibergen will require Securities and Exchange Commission clearance of necessary filings; it will not require Thermo Fibergen board or shareholder approval. Kadant expects to complete this transaction by the end of the fourth quarter of 2001.

Kadant Inc. is a leading supplier of a range of products for the global papermaking and paper-recycling industries, including de-inking systems, stock-preparation equipment, water-management systems, and papermaking accessories. Through its majority-owned Thermo Fibergen subsidiary, the company also develops and commercializes composite building materials produced from natural fiber and recycled plastic. Kadant, based in Waltham, Massachusetts, reported \$235 million in revenues in 2000 and employs approximately 1,200 people worldwide.

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. Important factors that could cause actual results to differ materially from those indicated by such forward-looking statements are set forth under the heading "Risk Factors" in Exhibit 99.1 to the company's current report on Form 8-K filed with the Securities and Exchange Commission on August 6, 2001. These include risks and uncertainties relating to: the company's dependence on the paper industry and pulp and paper prices, international operations, competition, ability to enter the composite building products market, acquisition strategy, dependence on patents and proprietary rights, fluctuations in quarterly operating results, and the spinoff of the company from Thermo Electron Corporation.

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KADANT INC.

AMENDED AND RESTATED EQUITY INCENTIVE PLAN

1. Purpose

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

2. Administration

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

3. Effective Date

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

4. Shares Subject to the Plan

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

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

available for distribution in connection with future Awards under the Plan, subject, however, in the case of Incentive Stock Options (as hereinafter defined), to any limitations under the Code.

5. Eligibility

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

6. Types of Awards

The Board may offer Awards under the Plan in any form of equity-based interest, equity-based incentive or performance-based stock incentive in Common Stock of the Company or any combination thereof. The type, terms and conditions and restrictions of an Award shall be determined by the Board at the time such Award is made to a Participant; provided however that the maximum number of shares permitted to be granted under any Award or combination of Awards to any Participant during any one calendar year may not exceed 100,000 shares of Common Stock, subject to adjustment as provided under Section 10.6.

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

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

6.1 Options

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

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

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

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

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

6.1.4 Payment of Exercise Price. Stock purchased on exercise of an option shall be paid for as follows: (1) in cash or by check (subject to such guidelines as the Company may establish for this purpose), bank draft or money order payable to the order of the Company or (2) if so permitted by the

instrument evidencing the option (or in the case of a non-statutory option, by the Board at or after grant of the option), (i) through the delivery of shares of Common Stock that have been outstanding for at least six months (unless the Board expressly approves a shorter period) and that have a fair market value (determined in accordance with procedures prescribed by the Board) equal to the exercise price, (ii) by delivery of a promissory note of the option holder to the Company, payable on such terms as are specified by the Board, (iii) by delivery of an unconditional and irrevocable undertaking by a broker to deliver promptly to the Company sufficient funds to pay the exercise price, or (iv) by any combination of the foregoing permissible forms of payment.

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

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

6.2 Restricted and Unrestricted Stock

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

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

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

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

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

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

restricted stock.

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

6.3 Deferred Stock

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

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

6.4 Performance Awards

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

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

7. Purchase Price and Payment

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

8. Loans and Supplemental Grants

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

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

9. Change in Control

9.1 Impact of Event

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

9.2 Definition of "Change in Control" Prior to the Spin-Off

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

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

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

(c) the consummation of a merger, consolidation, reorganization, recapitalization or statutory share exchange involving Thermo Electron or a sale or other disposition of all or substantially all of the assets of Thermo Electron in one or a series of transactions (a "Business Combination"), unless, immediately following such Business Combination, each of the following two conditions is satisfied: (i) all or substantially all of the individuals and entities who were the beneficial owners of the Outstanding TMO Common Stock and

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

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

9.3 Definition of "Change in Control" Upon Spin-Off

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

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

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

(c) the consummation of a merger, consolidation, reorganization, recapitalization or statutory share exchange involving the Company or a sale or other disposition of all or substantially all of the assets of the Company in one or a series of transactions (a "Business Combination"), unless, immediately following such Business Combination, each of the following two conditions is satisfied: (i) all or substantially all of the individuals and entities who were the beneficial owners of the Outstanding Common Stock and Outstanding Voting Securities immediately prior to such Business Combination beneficially own,

directly or indirectly, more than 60% of the then-outstanding shares of common stock and the combined voting power of the then-outstanding securities entitled to vote generally in the election of directors, respectively, of the resulting or acquiring corporation in such Business Combination (which shall include,

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

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

10. General Provisions

10.1 Documentation of Awards

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

10.2 Rights as a Stockholder

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

10.3 Conditions on Delivery of Stock

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

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

10.4 Tax Withholding

The Company will withhold from any cash payment made pursuant to an

Award an amount sufficient to satisfy all federal, state and local withholding tax requirements (the "withholding requirements").

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

10.5 Transferability of Awards

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

10.6 Adjustments in the Event of Certain Transactions

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

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

10.7 Employment Rights

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

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

10.8 Other Employee Benefits

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

ownership, stock purchase, life insurance, medical, health, disability or salary continuation plan.

10.9 Legal Holidays

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

10.10 Foreign Nationals

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

10.11 Governing Law

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

11. Termination and Amendment

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