UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended April 2, 2005 or
[   ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________ to _________

Commission file number 1-11406

KADANT INC.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	52-1762325
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

One Acton Place, Suite 202 Acton, Massachusetts	01720
(Address of Principal Executive Offices)	(Zip Code)

Registrant's Telephone Number, Including Area Code: (978) 776-2000

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

Indicate by check mark whether or not the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes [X] 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 May 5, 2005
Common Stock, $.01 par value	13,899,900

PART I - FINANCIAL INFORMATION

Item 1 - Financial Statements

KADANT INC.

Condensed Consolidated Balance Sheet
(Unaudited)

Assets

(In thousands)	April 2, 2005	January 1, 2005
Current Assets:		
Cash and cash equivalents	$ 80,473	$ 82,089
Accounts receivable, less allowances of $1,703 and $1,678	30,772	30,022
Unbilled contract costs and fees	11,574	10,258
Inventories (Note 5)	29,499	27,316
Deferred tax asset	6,723	6,691
Other current assets	7,334	6,703
Assets of discontinued operation (Note 11)	16,201	15,650
Total Current Assets	182,576	178,729
Property, Plant, and Equipment, at Cost	67,950	68,224
Less: accumulated depreciation and amortization	51,658	51,160
	16,292	17,064
Other Assets	15,104	15,036
Goodwill	74,147	74,408

Total Assets	$288,119	$285,237
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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> KADANT INC.

Condensed Consolidated Balance Sheet (continued)
(Unaudited)

Liabilities and Shareholders' Investment

(In thousands, except share amounts)	April 2, 2005	January 1, 2005
Current Liabilities:		
Accounts payable	$ 23,754	$ 21,327
Accrued payroll and employee benefits	8,288	11,261
Accrued restructuring costs (Note 6)	9,937	10,026
Accrued warranty costs	3,755	3,582
Other current liabilities	13,002	11,305
Liabilities of discontinued operation (Note 11)	7,004	7,578
Total Current Liabilities	65,740	65,079
Deferred Income Taxes	4,358	4,370
Other Long-Term Liabilities	3,304	3,327
Shareholders' Investment:		
Preferred stock, $.01 par value, 5,000,000 shares authorized; none issued	-	-
Common stock, $.01 par value, 150,000,000 shares authorized; 14,604,520 shares issued	146	146
Capital in excess of par value	98,188	98,450
Retained earnings	131,898	129,173
Treasury stock at cost, 664,920 and 689,407 shares	(17,513)	(18,158)
Deferred compensation	(137)	(50)
Accumulated other comprehensive items (Note 2)	2,135	2,900
	214,717	212,461
Total Liabilities and Shareholders' Investment	$288,119	$285,237

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

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KADANT INC.

Condensed Consolidated Statement of Income
(Unaudited)

(In thousands, except per share amounts)	Three Months Ended April 2, 2005	Three Months Ended April 3, 2004
Revenues	$ 50,744	$ 47,500
Costs and Operating Expenses:		
Cost of revenues	31,982	28,033
Selling, general, and administrative expenses	14,894	13,771
Research and development expenses	1,048	888
	47,924	42,692
Operating Income	2,820	4,808
Interest Income	472	329
Interest Expense	(2)	(8)
Income from Continuing Operations Before Provision for Income Taxes	3,290	5,129
Provision for Income Taxes	(203)	(1,795)
Income from Continuing Operations	3,087	3,334
Loss from Discontinued Operation (net of income tax benefit of $195 and $326) (Note 11)	(363)	(606)
Net Income	$ 2,724	$ 2,728
Basic Earnings (Loss) per Share (Note 3):		
Continuing Operations	$ .22	$ .23
Discontinued Operation	(.02)	(.04)
Net Income	$ .20	$ .19
Diluted Earnings (Loss) per Share (Note 3):		
Continuing Operations	$ .22	$ .23
Discontinued Operation	(.03)	(.04)
Net Income	$ .19	$ .19
Weighted Average Shares (Note 3):		
Basic	13,926	14,222
Diluted	14,211	14,603

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

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> KADANT INC.

Condensed Consolidated Statement of Cash Flows
(Unaudited)

(In thousands)	Three Months Ended April 2, 2005	Three Months Ended April 3, 2004
Operating Activities:		
Net Income	$ 2,724	$ 2,728
Loss from discontinued operation (Note 11)	363	606
Income from continuing operations	3,087	3,334
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	1,016	933
Provision for losses on accounts receivable	79	159
Loss (gain) on sale of property, plant, and equipment	31	(159)
Other items	433	166
Changes in current accounts:		
Accounts receivable	(741)	(1,633)
Unbilled contract costs and fees	(1,306)	3,698
Inventories	(2,098)	436
Other current assets	(769)	(171)
Accounts payable	2,378	(1,423)
Other current liabilities	(1,662)	(3,055)
Net cash provided by operating activities	448	2,285
Investing Activities:		
Acquisition of minority interest in subsidiary	-	(318)
Purchases of property, plant, and equipment	(166)	(362)
Proceeds from sale of property, plant, and equipment	-	1,274
Increase in deferred acquisition costs	(280)	-
Other, net	61	(47)
Net cash (used in) provided by investing activities	(385)	547
Financing Activities:		
Net proceeds from issuance of Company common stock	207	3,780
Repayments of long-term obligations	-	(217)
Net cash provided by financing activities	207	3,563
Exchange Rate Effect on Cash	(398)	1,349
Net Cash Used in Discontinued Operation	(1,488)	(1,459)
(Decrease) Increase in Cash and Cash Equivalents	(1,616)	6,285
Cash and Cash Equivalents at Beginning of Period	82,089	74,412
Cash and Cash Equivalents at End of Period	$ 80,473	$ 80,697

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

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KADANT INC.

Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. General

The interim condensed consolidated financial statements and related notes presented have been prepared by Kadant Inc. (also referred to in this document as "we," "Kadant," "the Company," or "the Registrant") without audit and, in the opinion of management, reflect all adjustments of a normal recurring nature necessary for a fair statement of the Company's financial position at April 2, 2005, and its results of operations and cash flows for the three-month periods ended April 2, 2005 and April 3, 2004. Interim results are not necessarily indicative of results for a full year.

The condensed consolidated balance sheet presented as of January 1, 2005, has been derived from the consolidated financial statements that have been audited by the Company's independent auditors. The condensed consolidated financial statements and related notes are presented as permitted by Form 10-Q and do not contain certain information included in the annual consolidated financial statements and related notes of the Company. The condensed consolidated financial statements and notes included herein should be read in conjunction with the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the fiscal year ended January 1, 2005, filed with the Securities and Exchange Commission.

Results for the first quarter of 2004 have been reclassified to reflect the Company's composite building products business as a discontinued operation (Note 11).

2. Comprehensive Income

Comprehensive income combines net income and "other comprehensive items," which represents certain amounts that are reported as components of shareholders' investment in the accompanying condensed consolidated balance sheet, including foreign currency translation adjustments and deferred gains and losses on foreign currency contracts. The components of comprehensive income are as follows:

	Three Months Ended	
(In thousands)	April 2, 2005	April 3, 2004
Net Income	$ 2,724	$ 2,728
Other Comprehensive Items:		
Foreign Currency Translation Adjustments	(665)	2,036
Deferred Loss on Foreign Currency Contracts	(100)	(22)
	(765)	2,014
Comprehensive Income	$ 1,959	$ 4,742

3. Earnings per Share

Basic and diluted earnings per share are calculated as follows:

	Three Months Ended	
(In thousands)	April 2, 2005	April 3, 2004
Income from Continuing Operations	$ 3,087	$ 3,334
Loss from Discontinued Operation	(363)	(606)
Net Income	$ 2,724	$ 2,728
Basic Weighted Average Shares	13,926	14,222
Effect of Stock Options	285	381
Diluted Weighted Average Shares	14,211	14,603

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KADANT INC.

Notes to Condensed Consolidated Financial Statements
(Unaudited)

3. Earnings per Share (continued)

(In thousands, except per share amounts)	Three Months Ended April 2, 2005	Three Months Ended April 3, 2004
Basic Earnings (Loss) per Share:		
Continuing Operations	$ .22	$ .23
Discontinued Operation	(.02)	(.04)
Net Income	$ .20	$ .19
Diluted Earnings (Loss) per Share:		
Continued Operations	$ .22	$ .23
Discontinued Operation	(.03)	(.04)
Net Income	$ .19	$ .19

Options to purchase approximately 227,500 and 238,800 shares of common stock for the first quarters of 2005 and 2004, 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 the effect of their inclusion would have been anti-dilutive.

4. Warranty Obligations

The Company provides for the estimated cost of product warranties, primarily using historical information and repair costs at the time product revenue is recognized. In the Pulp and Papermaking Systems (Papermaking Systems) segment, the Company typically negotiates the terms regarding warranty coverage and length of warranty depending on the products and applications. While the Company engages in extensive product quality programs and processes, the Company's warranty obligation is affected by product failure rates, repair costs, service delivery costs incurred in correcting a product failure, and supplier warranties on parts delivered to the Company. Should actual product failure rates, repair costs, service delivery costs, or supplier warranties on parts differ from the Company's estimates, revisions to the estimated warranty liability would be required.

The changes in the carrying amount of the Company's product warranties for the first quarters of 2005 and 2004 are as follows:

(In thousands)	Three Months Ended April 2, 2005	Three Months Ended April 3, 2004
Balance at Beginning of Period	$ 3,582	$ 3,661
Provision charged to income	853	799
Usage	(674)	(582)
Other, net (a)	(6)	43
Balance at End of Period	$ 3,755	$ 3,921

(a) Represents the effects of currency translation.

See Note 11 for warranty information related to the discontinued operation.

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KADANT INC.

Notes to Condensed Consolidated Financial Statements
(Unaudited)

5. Inventories

The components of inventories are as follows:

(In thousands)	April 2, 2005	January 1, 2005
Raw Materials and Supplies	$ 12,885	$ 12,849
Work in Process	7,773	6,047
Finished Goods (includes $435 and $611 at customer locations)	8,841	8,420
	$ 29,499	$ 27,316

6. Restructuring Costs

In an effort to improve operating performance at the Papermaking Systems segment's Kadant Lamort subsidiary in France, the Company approved a proposed restructuring of that subsidiary on November 18, 2004. This restructuring was initiated to strengthen Kadant Lamort's competitive position in the European paper industry. Under French law, the proposed restructuring requires consultation with Kadant Lamort's workers' council, which consists of elected employees supported by trade union representatives, before implementation. The restructuring primarily includes the reduction of up to 136 full-time positions across all functions in France, and is expected to be implemented in 2005. The Company accrued a restructuring charge of $9,235,000 in the fourth quarter of 2004, in accordance with Statement of Financial Accounting Standard (SFAS) No. 112, "Employers' Accounting for Postemployment Benefits - An Amendment of Financial Accounting Standards Board (FASB) Statements No. 5 and 43," for severance and other termination costs in connection with the workforce reduction. As a result of the restructuring, the Company expects to realize a curtailment resulting in a reduction in the accrued liability associated with Kadant Lamort's pension plan of approximately $800,000, which will be recognized in 2005 when the restructuring plan has been implemented. In addition, during the fourth quarter of 2004, the Company recorded restructuring costs of $280,000, which were accounted for in accordance with SFAS No. 112, related to severance costs of 11 employees at one of the Papermaking Systems segment's U.S. subsidiaries.

A summary of the changes in accrued restructuring costs is as follows:

(In thousands)	Severance
Balance at January 1, 2005	$ 10,026
Usage	(67)
Currency translation	(22)
Balance at April 2, 2005	$ 9,937

The specific restructuring measures and associated estimated costs are based on the Company's best judgments under prevailing circumstances. The Company believes that the restructuring reserve balance is adequate to carry out the restructuring activities formally identified and committed to during the fourth quarter of 2004, and anticipates that all actions related to these liabilities will be completed in 2005.

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7. Business Segment Information

The Company has combined its operating entities into one operating segment, Papermaking Systems, and a separate product line, Fiber-based Products. In classifying operational entities into a particular segment, the Company aggregated businesses with similar economic characteristics, products and services, production processes, customers, and methods of distribution.

(In thousands)	Three Months Ended April 2, 2005	Three Months Ended April 3, 2004
Revenues:		
Pulp and Papermaking Systems	$ 47,571	$ 45,564
Fiber-based Products	3,173	1,936
	$ 50,744	$ 47,500
Income from Continuing Operations Before Provision for Income Taxes:		
Pulp and Papermaking Systems (a)	$ 3,374	$ 6,343
Corporate and Other (b,c)	(554)	(1,535)
Total Operating Income	2,820	4,808
Interest Income, Net	470	321
	$ 3,290	$ 5,129
Capital Expenditures:		
Pulp and Papermaking Systems	$ 140	$ 330
Corporate and Other (b)	26	32
	$ 166	$ 362

(a) Includes a pre-tax gain of $970 in the 2004 period, which resulted from renegotiating a series of agreements with one of the Company's licensees.
(b) Corporate and other includes the results from the Company's Fiber-based Products business and corporate.
(c) Corporate primarily includes general and administrative expenses.

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8. Stock-Based Compensation Plans and Pro Forma Stock-Based Compensation Expense

As permitted by SFAS No. 148, "Accounting for Stock-based Compensation - Transition and Disclosure," and SFAS No. 123, "Accounting for Stock-based Compensation" (SFAS No. 123), the Company has elected to continue to apply Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB Opinion No. 25), and related interpretations to account for its stock-based compensation plans. No stock-based employee compensation cost related to stock option awards is reflected in net income, as all options granted under the plans had an exercise price equal to the market value of the underlying common stock on the date of grant. Had compensation cost for awards granted after 1994 under the Company's stock-based compensation plans been determined based on the fair value at the grant dates consistent with the method set forth under SFAS No. 123, the effect on certain of the Company's financial results would have been as follows:

	Three Months Ended	
(In thousands, except per share amounts)	April 2, 2005	April 3, 2004
Income from Continuing Operations	$ 3,087	$ 3,334
Loss from Discontinued Operation	(363)	(606)
Net Income As Reported	2,724	2,728
Deduct: Total stock-based employee compensation expense determined under the fair-value-based method for all awards, net of tax	(202)	(506)
Pro forma net income	$ 2,522	$ 2,222
Basic Earnings per Share:		
As reported:		
Income from continuing operations	$ .22	$ .23
Net income	$ .20	$ .19
Pro forma:		
Income from continuing operations	$ .21	$ .20
Net income	$ .18	$ .16
Diluted Earnings per Share:		
As reported:		
Income from continuing operations	$ .22	$ .23
Net income	$ .19	$ .19
Pro forma:		
Income from continuing operations	$ .20	$ .19
Net income	$ .18	$ .15

9. Employee Benefit Plans

Defined Benefit Pension Plan

One of the Company's U.S. subsidiaries has a noncontributory defined benefit retirement plan. Benefits under the plan are based on years of service and employee compensation. Funds are contributed to a trustee as necessary to provide for actuarially determined costs, generally equal to the minimum amounts required by the Employee Retirement Income Security Act (ERISA). The same subsidiary has a post-retirement welfare benefits plan (reflected in the table below in "Other Benefits"). No future retirees are eligible for the post-retirement welfare benefits plan, and the plan includes a limit on the subsidiary's contributions. The Company's Kadant Lamort subsidiary sponsors a defined benefit pension plan, which is included in the table below in "Other Benefits." Benefits under this plan are based on years of service and projected employee compensation.

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9. Employee Benefit Plans (continued)

The components of the net periodic benefit cost for the pension benefits and other benefits plans in the first quarters of 2005 and 2004 are as follows:

(In thousands)	Three Months Ended April 2, 2005		Three Months Ended April 3, 2004	
	Pension Benefits	Other Benefits	Pension Benefits	Other Benefits
Components of Net Periodic Benefit Cost:				
Service cost	$ 175	$ 34	$ 162	$ 4
Interest cost	253	40	257	17
Expected return on plan assets	(351)	-	(342)	-
Recognized net actuarial loss	1	8	-	9
Amortization of prior service cost	12	(12)	11	(15)
Net periodic benefit cost	$ 90	$ 70	$ 88	$ 15

The weighted-average assumptions used to determine net periodic benefit cost are as follows:

Discount rate	6.00%	4.70%	6.25%	5.40%
Expected long-term return on plan assets	8.50%	-	8.50%	-
Rate of compensation increase	4.00%	2.50%	4.00%	2.50%

No cash contributions are expected for the U.S. subsidiary's noncontributory defined benefit retirement plan and no cash contributions, other than funding current benefit payments, are expected for the other pension and post-retirement welfare benefits plans in 2005.

10. Recent Accounting Pronouncement

Share-Based Payment

On December 16, 2004, the FASB issued SFAS No. 123 (revised 2004) "Share-Based Payment" (SFAS No. 123R). SFAS No. 123R replaces SFAS No. 123, supersedes APB Opinion No. 25, and amends SFAS No. 95 "Statement of Cash Flows." SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. SFAS No. 123R is effective for the Company on January 1, 2006. The pro forma disclosures previously permitted under SFAS No. 123 will no longer be an alternative to financial statement recognition. As permitted by SFAS No. 123, the Company currently accounts for share-based payments to employees using APB Opinion No. 25's intrinsic value method and, as such, generally recognizes no compensation cost for employee stock options. Under SFAS 123R, companies must determine the appropriate fair value model to be used at the date of adoption. The transition methods include prospective and retrospective adoption options. Management is evaluating the requirements of SFAS No. 123R. The impact of the adoption of SFAS No. 123R cannot be predicted at this time because it will vary based on the levels of share-based payments granted in the future. Based on the level of stock options outstanding as of April 2, 2005 and assuming the continued use of the Black Scholes fair value method, the effect of adoption of SFAS No. 123R on January 1, 2006 would not be material.

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11. Discontinued Operation

On October 27, 2004, the Company's board of directors approved a plan and management committed to sell the Company's composite building products business (composites business) after making a determination that the business no longer aligned with the Company's long-term strategy. The Company intends to sell the composites business as a going concern and has engaged an investment banking firm to sell this business. The Company plans to sell this business in 2005 at a price that is reasonable compared to its carrying value. As a result of the decision to sell the composites business, the Company evaluated whether the composites business should be classified as a discontinued operation under SFAS No. 144. The Company has presented the composites business in the accompanying condensed consolidated financial statements as a discontinued operation as all the criteria under SFAS No. 144 have been met. All prior periods have been restated to reflect the composites business as a discontinued operation.

Operating results for the composites business are as follows:

	Three Months Ended	
(In thousands)	April 2, 2005	April 3, 2004
Revenues	$ 5,236	$ 4,227
Loss Before Income Tax Benefit	(558)	(932)
Benefit for Income Taxes	195	326
Loss From Discontinued Operation	$ (363)	$ (606)

The major classes of assets and liabilities of the discontinued operation included in the accompanying condensed consolidated balance sheet are as follows:

(In thousands)	April 2, 2005	January 1, 2005
Cash and cash equivalents	$ 234	$ 39
Accounts receivable, less allowances	2,769	2,252
Inventories	3,861	4,035
Other current assets	1,963	1,981
Property, plant, and equipment, at cost, net	6,791	6,760
Other assets	583	583
Total Assets	16,201	15,650
Accounts payable	1,085	1,446
Accrued warranty costs	4,070	4,327
Other current liabilities	949	905
Other liabilities	900	900
Total Liabilities	7,004	7,578
Net Assets	$ 9,197	$ 8,072

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11. Discontinued Operation (continued)

The composites business offers a standard limited warranty to the original owner of its decking and roofing products, limited to repair or replacement of the defective product or a refund of the original purchase price. The composites business records an estimate for warranty-related costs at the time of sale based on actual historical return rates and repair costs, as well as other analytical tools for estimating future warranty claims. These estimates are revised for variances between actual and expected claims rates. The analysis of expected warranty claims rates includes detailed assumptions associated with potential product returns, including the type of product sold, temperatures at the location of installation, density of boards, and other factors. Certain assumptions, such as the effect of weather conditions and high temperatures on the product installed, include inherent uncertainties that are subject to fluctuation, which could impact future warranty provisions. Due to the highly subjective nature of these assumptions, the Company has recorded its best estimate of the cost of expected warranty claims. It is reasonably possible that the ultimate settlement of such claims may exceed the amount recorded.

The composites business experienced warranty issues that affected its profitability in 2003 and 2004. There was a substantial increase in warranty claims in 2004, with the most significant increase occurring in the three-month period ended October 2, 2004. During the first six months of 2004, the majority of the claims were associated with contraction of certain decking products. In the three-month period ended October 2, 2004, the increased claims were associated with a new issue concerning excessive oxidation that affected the integrity of the plastic used in some of the decking products manufactured prior to October 2003. As a result of the increase in claims received and the estimate for future potential claims, the Company increased its warranty expense in 2004 compared to prior periods. Included in this increased warranty expense was the cost of exchanging material held by the composites business' distributors with new material and its best estimate of costs related to future potential valid claims arising from installed products.

A summary of the changes in accrued warranty costs in the first quarters of 2005 and 2004 is as follows:

	Three Months Ended	
(In thousands)	April 2, 2005	April 3, 2004
Balance at Beginning of Period	$ 4,327	$ 869
Provision	406	496
Usage	(663)	(364)
Balance at End of Period	$ 4,070	$ 1,001

The Company likely will not be able to transfer all of the liabilities of the composites business in a sale. Any changes associated with the carrying value of liabilities which are not assumed by a buyer would continue to impact the Company's consolidated results after the sale is completed.

12. Subsequent Event

On May 11, 2005, the Company acquired all of the outstanding stock of The Johnson Corporation (Johnson), a leading supplier of steam and condensate systems, components, and controls used primarily in the dryer section of papermaking and during the production of steel, plastics, rubber, and textiles. Johnson was a privately held company based in Three Rivers, Michigan with approximately 575 employees and 2004 revenues of $76 million based on the December 31, 2004 audited financial statements provided by Johnson. The purchase price for the acquisition was $102

12. Subsequent Event (continued)

million in cash (the Base Purchase Price), and is subject to post-closing adjustments outlined in the Purchase Agreement. On May 11, 2005 the purchase price was adjusted to $101.5 million, subject to a further post-closing adjustment. The parties also agreed in the Purchase Agreement to an earn-out provision, based on the achievement of certain revenue targets between the closing date and July 1, 2006, which could increase the Base Purchase Price by up to $8 million. In addition to the cash consideration, the Company issued a letter of credit to the sellers for $4 million, subject to adjustment, related to certain tax assets of Johnson, the value of which the Company expects to realize.

Pursuant to the Purchase Agreement, at the closing of the Johnson acquisition $12.75 million of the Base Purchase Price was deposited into an escrow fund to secure certain indemnification obligations of the sellers and to satisfy certain obligations of the sellers to adjust the Base Purchase Price.

To fund a portion of the purchase price, the Company also entered into a term loan and revolving credit facility (the Credit Agreement) effective as of May 9, 2005 in the aggregate principal amount of up to $85 million, including a $25 million revolver. The Credit Agreement includes a $60 million five-year term loan, which is repayable in equal quarterly installments over a five-year period. The aggregate principal to be repaid each year is as follows: $4.5 million, $9 million, $10.5 million, $13.5 million, $15 million, and $7.5 million in 2005, 2006, 2007, 2008, 2009, and 2010, respectively. Interest on the revolving loan and the term loan accrues and is payable quarterly in arrears at one of the following rates selected by Kadant (a) the prime rate plus an applicable margin (up to .25%) or (b) a eurocurrency rate plus an applicable margin (up to 1.25%). The applicable margin is determined based upon Kadant's total debt to earnings before interest, taxes, depreciation and amortization (EBITDA) ratio.

The obligations of Kadant under the Credit Agreement may be accelerated upon the occurrence of an event of default under the Credit Agreement, which includes customary events of default including without limitation payment defaults, defaults in the performance of affirmative and negative covenants, the inaccuracy of representations or warranties, bankruptcy and insolvency related defaults, defaults relating to such matters as ERISA, uninsured judgments and the failure to pay certain indebtedness, and a change of control default.

In addition, the Credit Agreement contains negative covenants applicable to Kadant and its subsidiaries, including financial covenants requiring Kadant to comply with a maximum consolidated leverage ratio of either 2.5 or 3.0 and a minimum consolidated fixed charge coverage ratio of 1.5, and restrictions on liens, indebtedness, fundamental changes, dispositions of property, making certain restricted payments (including dividends and stock repurchases), investments, transactions with affiliates, sale and leaseback transactions, swap agreements, changing its fiscal year, negative pledges, arrangements affecting subsidiary distributions, entering into new lines of business, and amending the documents relating to the Johnson acquisition.

The loans under the Credit Agreement are guaranteed by certain domestic subsidiaries of Kadant and secured by a pledge of 65% of the stock of the first-tier foreign subsidiaries of Kadant and the subsidiary guarantors pursuant to a Guarantee and Pledge Agreement effective as of May 9, 2005 in favor of JPMorgan Chase Bank, N.A., as agent on behalf of the lenders.

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

This Quarterly Report on Form 10-Q includes forward-looking statements that are not statements of historical fact, and may include statements regarding possible or assumed future results of operations. Forward-looking statements are subject to risks and uncertainties and are based on the beliefs and assumptions of our management, using information currently available to our management. When we use words such as "believes," "expects," "anticipates," "intends," "plans," "estimates," "should," "likely," "will," "would," or similar expressions, we are making forward-looking statements.

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

Overview

Company Background

We are a leading supplier of equipment used in the global papermaking and paper recycling industry and are also a manufacturer of granules made from papermaking byproducts. Our continuing operations consist of one operating segment, Pulp and Papermaking Systems (Papermaking Systems), and a separate product line, Fiber-based Products. We aggregate into the Papermaking Systems segment our businesses with similar economic characteristics, products and services, production processes, customers, and methods of distribution. We also manage a composite building products business, which is presented as a discontinued operation in the accompanying condensed consolidated financial statements as a result of our decision to sell that business.

We were incorporated in Delaware in November 1991 to be the successor-in-interest to several papermaking equipment businesses of Thermo Electron Corporation (Thermo Electron). In November 1992, we completed an initial public offering of a portion of our outstanding common stock. On July 12, 2001, we changed our name to Kadant Inc. from Thermo Fibertek Inc. In August 2001, Thermo Electron disposed of its remaining equity interest in us by means of a stock dividend to its shareholders. In May 2003, we moved the listing of our common stock to the New York Stock Exchange, where it continues to trade under the symbol "KAI."

Pulp and Papermaking Systems Segment

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

- Stock-preparation systems and equipment: custom-engineered systems and equipment, as well as standard individual components, for pulping, de-inking, screening, cleaning, and refining recycled and virgin fibers for preparation for entry into the paper machine during the production of recycled paper;

- Paper machine accessory equipment: doctoring systems and related consumables that continuously clean papermaking rolls to keep paper machines running efficiently; doctor blades made of a variety of materials to perform functions including cleaning, creping, web removal, and application of coatings; and profiling systems that control moisture, web curl, and gloss during paper production; and

- Water-management systems: systems and equipment used to continuously clean paper machine fabrics and to drain, purify, and recycle process water during paper sheet formation.

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Overview (continued)

Fiber-Based Products

We produce biodegradable, absorbent granules from papermaking byproducts for use primarily as carriers for agricultural, home lawn and garden, and professional lawn, turf and ornamental applications, as well as for oil and grease absorption.

Discontinued Operation

We produce composite building products, including decking and railing systems and roof tiles, made from recycled fiber, plastic, and other material, which are marketed through distributors primarily to the building industry.

On October 27, 2004, our board of directors approved a plan and management committed to sell our composites business after making a determination that the business no longer aligned with our long-term strategy. We intend to sell the composites business as a going concern and are working with an investment banking firm to sell this business. We plan to sell the composites business by the end of 2005 at a price that is reasonable compared to its carrying value. The composites business had total assets and liabilities of $16.2 million and $7.0 million, respectively, as of April 2, 2005, including accrued warranty costs of $4.1 million, which we may not be able to transfer in a sale. In addition, revenues and net loss for the first quarter of 2005 were $5.2 million and $0.4 million, respectively. The composites business has been presented as a discontinued operation in the accompanying condensed consolidated financial statements for all periods presented.

International Sales

During the first quarters of 2005 and 2004, approximately 57% and 59%, respectively, of our sales were to customers outside the United States, principally in Europe and Asia. 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 seek to reduce our exposure to currency fluctuations through the use of forward currency exchange contracts. We may enter into forward contracts to hedge certain firm purchase and sale commitments denominated in currencies other than our subsidiaries' functional currencies. These contracts hedge transactions principally denominated in U.S. dollars.

Application of Critical Accounting Policies and Estimates

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

Critical accounting policies are defined as those that reflect significant judgments and uncertainties, and could potentially result in materially different results under different assumptions and conditions. We believe that our most critical accounting policies, upon which our financial condition depends and which involve the most complex or subjective decisions or assessments, are those described in "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the section captioned "Application of Critical Accounting Policies and Estimates" in Item 7 of our Annual Report on Form 10-K for the fiscal year ended January 1, 2005, filed with the Securities and Exchange Commission. There have been no material changes to these critical accounting policies since fiscal year-end 2004 that warrant further disclosure.

Overview (continued)

Industry and Business Outlook

Our products are primarily sold to the pulp and paper industry. Although the paper industry had been in a prolonged downcycle for the past several years, the performance of paper producers, especially in North America, has been gradually improving over the past few quarters. Increased operating rates and improved pricing has helped to increase the profitability of paper producers during this period, although their profitability is still being negatively affected by higher operating costs, especially higher energy costs. We believe paper companies are still cautious about increasing their capital and operating spending in the current market environment. We expect, however, if the market recovers, paper companies will increase their capital and operating spending, which will have a positive effect on paper company suppliers, such as Kadant, although the timing of such effect is difficult to predict. We continue to concentrate our efforts on several initiatives intended to improve our operating results, including: (i) expanding our business in China, (ii) increasing our higher-margin parts and consumables businesses across all our product lines, (iii) sourcing the manufacture of non-proprietary components from third-party suppliers, (iv) shifting more production to our lower-cost manufacturing facilities, and (v) lowering our manufacturing overhead costs throughout the business. In addition, we continue to focus our efforts on managing our operating costs, capital expenditures, and working capital.

In an effort to improve operating performance at our Kadant Lamort subsidiary in France, we approved a proposed restructuring of that subsidiary on November 18, 2004. This restructuring is intended to strengthen Kadant Lamort's competitive position in the European paper industry. Under French law, the proposed restructuring requires consultation with Kadant Lamort's workers' council, which represents the employees, before implementation. The restructuring primarily includes the reduction of up to 136 full-time positions in France, and is expected to be implemented in 2005. We accrued a restructuring charge of $9.2 million in the fourth quarter of 2004 for severance and other termination costs in connection with the workforce reduction. Negotiations with the workers' council are ongoing and Kadant Lamort has experienced intermittent work stoppages by employees protesting the proposed restructuring. Kadant Lamort has developed contingency plans to reduce the risk of the work stoppages affecting its ability to meet its contractual commitments. We expect that Kadant Lamort will continue to experience significant operating losses until these restructuring actions are completed.

We continue to pursue market opportunities outside North America. In the last several years, China has become a significant market for our stock-preparation equipment. To capitalize on this growing market, we plan to build a manufacturing and assembly facility in China for our stock-preparation equipment and related aftermarket products. Revenues from China are primarily derived from large capital orders, the timing of which is often difficult to predict. For the past several quarters, our customers in China have experienced delays in obtaining financing for their capital addition and expansion projects, which we believe is due to efforts by the Chinese government to control economic growth, which are reflected in a slowdown in financing approvals in China's banking system. This has caused delays in receiving orders and, as a result, will delay our recognizing revenue on these projects to periods later than originally expected. We plan to use our new facility in China as a base for increasing our aftermarket business, which we believe will be more predictable.

On May 11, 2005, we acquired all of the outstanding stock of The Johnson Corporation (Johnson), a leading supplier of steam and condensate systems, components, and controls used primarily in the dryer section of papermaking and during the production of steel, plastics, rubber, and textiles. Johnson was a privately held company based in Michigan with approximately 575 employees at operations in North and South America, Europe and Asia. Johnson's primary products include rotary joints, syphons, and related steam and condensate systems. The Base Purchase price for the acquisition was $102 million in cash, subject to post-closing adjustments. On May 11, 2005, the purchase price was adjusted to $101.5 million, subject to a further post-closing adjustment as outlined in the Purchase Agreement for Johnson. The parties also agreed in the Purchase Agreement to an earn-out provision, based on the achievement of certain revenue targets between the closing date and July 1, 2006, which could increase the Base Purchase Price by up to $8 million. In addition to the cash consideration, we issued a letter of credit to the sellers for

Overview (continued)

$4 million, subject to adjustment, related to certain tax assets of Johnson, the value of which we expect to realize.

Our 2005 guidance reflects expected revenues and earnings per share from continuing operations, which excludes the results from our composite building products business (accounted for as a discontinued operation). For the second quarter of 2005, we expect to earn between $.19 to $.21 per diluted share, on revenues of $54 to $56 million. For the full year, we expect to earn between $.86 to $.96 per diluted share, on revenues of $205 to $215 million. This guidance does not include any impact from the acquisition of Johnson, including the future amortization expense associated with acquired intangibles and the future impact on interest income and expense due to the acquisition.

Results of Operations

First Quarter 2005 Compared With First Quarter 2004

The following table sets forth, for the first fiscal quarters of 2005 and 2004, our unaudited condensed consolidated statement of income expressed as a percentage of total revenues. The results of operations for the fiscal quarter ended April 2, 2005 are not necessarily indicative of the results to be expected for the full fiscal year.

	Three Months Ended	
	April 2, 2005	April 3, 2004
Revenues	100.0%	100.0%
Costs and Operating Expenses:		
Cost of revenues	63.0	59.0
Selling, general, and administrative expenses	29.3	29.0
Research and development expenses	2.1	1.9
	94.4	89.9
Operating Income	5.6	10.1
Interest Income, net	0.9	0.7
Income from Continuing Operations Before Provision for Income Taxes	6.5	10.8
Provision for Income Taxes	0.4	3.8
Income from Continuing Operations	6.1	7.0
Loss from Discontinued Operation	(0.7)	(1.3)
Net Income	5.4%	5.7%

Revenues

Revenues increased to $50.7 million in the first quarter of 2005 from $47.5 million in the first quarter of 2004, an increase of $3.2 million, or 7%. Revenues in the first quarter of 2005 include a favorable effect of currency translation of $1.0 million, or 2%, due to a weaker U.S. dollar relative to most of the functional currencies in countries in which we operate.

Results of Operations (continued)

Revenues for the first quarters of 2005 and 2004 from our Papermaking Systems segment and our Fiber-based Products business are as follows:

(In thousands)	Three Months Ended April 2, 2005	Three Months Ended April 3, 2004
Revenues:		
Pulp and Papermaking Systems	$ 47,571	$ 45,564
Fiber-based Products	3,173	1,936
	$ 50,744	$ 47,500

Pulp and Papermaking Systems Segment. Revenues at the Papermaking Systems segment increased to $47.6 million in the first quarter of 2005 from $45.6 million in the first quarter of 2004, an increase of $2.0 million, or 4%. Revenues in the first quarter of 2005 include the favorable effect of currency translation described above, all of which related to this segment.

Revenues at the Papermaking Systems segment by product line are as follows:

(In millions)	Three Months Ended April 2, 2005	Three Months Ended April 3, 2004	Increase (Decrease)	Increase (Decrease) Excluding Effect of Currency Translation
Product Line:				
Stock-Preparation Equipment	$ 24.5	$ 21.6	$ 2.9	$ 2.4
Accessories	15.3	16.0	(0.7)	(1.1)
Water-Management	7.4	7.6	(0.2)	(0.3)
Other	0.4	0.4	-	-
	$ 47.6	$ 45.6	$ 2.0	$ 1.0

Revenues from the segment's stock-preparation equipment product line increased $2.9 million, or 13%, in the first quarter of 2005 compared to the first quarter of 2004, including a $0.5 million increase from the favorable effect of currency translation. Excluding the effect of currency translation, revenues from the stock-preparation equipment product line increased $2.4 million, or 11%, due to a $2.2 million, or 34%, increase in sales in our North American-based business and a $1.1 million, or 13%, increase in sales in Europe. These increases were offset in part by a $0.9 million, or 15%, decrease in sales in China in the first quarter of 2005 due to continued customer delays in obtaining financing.

Revenues from the segment's accessories product line decreased $0.7 million, or 4%, in the first quarter of 2005 compared to the first quarter of 2004, including a $0.4 million increase from the favorable effect of currency translation. Excluding the effect of currency translation, revenues from the segment's accessories product line decreased $1.1 million, or 7%, due to a decrease in sales in North America and Europe.

Revenues from the segment's water-management product line decreased $0.2 million, or 3%, in the first quarter of 2005 compared to the first quarter of 2004, including a $0.1 million increase from the favorable effect of currency translation. Excluding the effect of currency translation, revenues from the segment's water-management product line decreased $0.3 million, or 4%, due primarily to a decrease in capital sales in North America.

Results of Operations (continued)

Fiber-Based Product. Revenues from the Fiber-based Products business increased $1.2 million, or 64%, to $3.2 million in the first quarter of 2005 from $1.9 million in the first quarter of 2004, primarily as a result of an increase in sales to an existing customer of Biodac, our product family of biodegradable granules that we produce from papermaking byproducts.

Gross Profit Margin

Gross profit margin was 37% in the first quarter of 2005 compared to 41% in the first quarter of 2004.

Gross profit margins for the first quarters of 2005 and 2004 for our Papermaking Systems segment and our Fiber-based Products business are as follows:

	Three Months Ended	
	April 2, 2005	April 3, 2004
Gross Profit Margin:		
Pulp and Papermaking Systems	36.6%	41.3%
Fiber-based Products	42.9	34.3
	37.0%	41.0%

The gross profit margin at the Papermaking Systems segment decreased to 37% in the first quarter of 2005 from 41% in the first quarter of 2004 primarily due to lower margins at our Kadant Lamort subsidiary, which is undergoing a major restructuring of its business. Our product gross margins were also lower due to an unfavorable product mix towards lower margin capital products primarily in our stock-preparation equipment product-line from sales of capital equipment in North America and China. The gross profit margin at the Fiber-based Products business increased to 43% in the first quarter of 2005 from 34% in the first quarter of 2004 due to greater operating efficiencies as a result of higher production levels in 2005.

Operating Expenses

Selling, general, and administrative expenses as a percentage of revenues remained constant at 29% in the first quarters of 2005 and 2004. Selling, general, and administrative expenses increased to $14.9 million in the first quarter of 2005 from $13.8 million in the first quarter of 2004, an increase of $1.1 million, or 8%, primarily due to a gain of approximately $1.0 million in the first quarter of 2004. The gain in the first quarter of 2004 resulted from the renegotiation of a series of agreements with one of our licensees, which lowered selling, general, and administrative expenses in that period. In addition, an increase of $0.3 million in the first quarter of 2005 was due to the unfavorable impact of foreign currency translation in the Papermaking Systems segment compared to the first quarter of 2004.

Research and development expenses were $1.0 million and $0.9 million in the first quarters of 2005 and 2004, respectively, and represented 2% of revenues in both periods.

Interest Income

Interest income increased to $0.5 million in the first quarter of 2005 from $0.3 million in the first quarter of 2004 primarily due to higher prevailing interest rates.

Results of Operations (continued)

Income Taxes

Our effective tax rate was 6% and 35% in the first quarters of 2005 and 2004, respectively. The 6% effective tax rate in the first quarter of 2005 consisted of our 33% recurring tax rate, offset by a 27% non-recurring tax benefit associated with a reimbursement of $0.9 million received from our former parent company, Thermo Electron, pursuant to our tax matters agreement for tax years in which we were included in Thermo Electron's consolidated tax return. The 33% effective tax rate in the first quarter of 2005 decreased compared with the first quarter of 2004 primarily due to a decrease in the foreign blended rate.

Income from Continuing Operations

Income from continuing operations decreased to $3.1 million in the first quarter of 2005 from $3.3 million in the first quarter of 2004, a decrease of $0.2 million, or 7%. This decrease was primarily due to a $2.0 million decrease in pre-tax operating income, offset by a $0.9 million tax benefit associated with a reimbursement received from our former parent company, Thermo Electron, pursuant to our tax matters agreement for tax years in which we were included in Thermo Electron's consolidated tax return.

Loss from Discontinued Operation

Loss from discontinued operation decreased to $0.4 million in the first quarter of 2005 from $0.6 million in the first quarter of 2004, due primarily to a $0.4 million decrease in pre-tax operating losses.

Liquidity and Capital Resources

Consolidated working capital, including the discontinued operation, was $116.8 million at April 2, 2005, compared with $113.7 million at January 1, 2005. Included in working capital are cash and cash equivalents of $80.5 million at April 2, 2005, compared with $82.1 million at January 1, 2005. At April 2, 2005, $19.4 million of cash and cash equivalents were held by our foreign subsidiaries.

Our operating activities provided $0.4 million and $2.3 million of cash during the first quarters of 2005 and 2004, respectively. Cash was provided by income from continuing operations of $3.1 million and a non-cash charge for depreciation and amortization expense of $1.0 million in the first quarter of 2005. In addition, in the first quarter of 2005, an increase in accounts payable provided an increase in cash of $2.4 million. This increase in accounts payable was primarily associated with the purchase of inventory for new orders at the Papermaking Systems segment. In the first quarter of 2005 cash of $2.1 million was used to purchase inventory, and a decrease in other current liabilities used cash of $1.7 million, primarily due to a decrease in accrued payroll and employee benefits as a result of employee incentive payments made in the first quarter of 2005. In addition, an increase in unbilled contract costs and fees used cash of $1.3 million in the first quarter of 2005 and an increase in accounts receivable resulted in a use of cash of $0.7 million, primarily at the Papermaking Systems segment, due to the timing of payments.

Our investing activities used cash of $0.4 million in the first quarter of 2005 compared with providing $0.5 million of cash in the first quarter of 2004. During the first quarter of 2005, we purchased $0.2 million of property, plant, and equipment and incurred $0.3 million of deferred acquisition costs associated with the Johnson acquisition.

Our financing activities provided cash of $0.2 million and $3.6 million in the first quarters of 2005 and 2004, respectively. During the first quarter of 2005, we received proceeds of $0.2 million from the issuance of common stock in connection with the exercise of employee stock options.

Our discontinued operation used cash of $1.5 million in the first quarters of 2005 and 2004. The use of cash of $1.5 million in the first quarter of 2005 was primarily due to the loss from discontinued operation of $0.4 million, an

Liquidity and Capital Resources (continued)

increase in accounts receivable of $0.5 million, and a decrease in accounts payable of $0.4 million.

On October 22, 2004, the American Jobs Creation Act of 2004 (the Act) was signed into law. The Act creates a temporary incentive for U.S. multinationals to repatriate accumulated income earned outside the U.S. at an effective tax rate of 5.25%. On December 21, 2004, the Financial Accounting Standards Board (FASB) issued FASB Staff Position, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004" (FAS No. 109-2). FAS No. 109-2 allows companies additional time to evaluate the effect of the law on unrepatriated foreign earnings, and whether they continue to qualify for the exception in SFAS No. 109, "Accounting for Income Taxes," to recognizing deferred tax liabilities and would require explanatory disclosures from those who need the additional time. Through April 2, 2005, we have not provided U.S. income taxes on approximately $44.5 million of unremitted foreign earnings because such earnings were intended to be indefinitely reinvested outside the U.S. Whether we will ultimately utilize and benefit from the provisions of the Act depends on a number of factors, including the results of reviewing future Congressional guidance before a decision can be made. Until that time, we will make no change in our current intention to indefinitely reinvest accumulated earnings of our foreign subsidiaries, except in instances in which we can remit such earnings without a significant associated tax cost. We do not expect that this will have a material adverse effect on our current liquidity. Absent the repatriation incentive of the Act, we believe that any U.S. tax liability due upon remittance of such earnings would be immaterial due to the availability of U.S. foreign tax credits generated from such remittance. The related foreign tax withholding, which would be required if we remitted the foreign earnings to the U.S., would be approximately $1.9 million.

In May 2004, our board of directors authorized the repurchase of up to $30 million of our equity securities in the open market or in negotiated transactions through May 18, 2005. As of April 2, 2005, we had repurchased 460,400 shares of our common stock under this authorization for $9.3 million. For the period from April 2, 2005 through May 5, 2005, we repurchased an additional 39,700 shares of our common stock under this authorization for $0.7 million. On May 6, 2005, our board of directors authorized the repurchase of up to $15 million of our equity securities in the open market or in negotiated transactions for the period from May 18, 2005 through May 18, 2006.

Although we currently have no material commitments for capital expenditures, we plan to make expenditures during the remainder of 2005 for property, plant, and equipment of approximately $3.8 million, including $1.2 million for our manufacturing and assembly facility in China to support our stock-preparation equipment business.

Our future liquidity position will be primarily affected by the acquisition of Johnson, the level of cash flows from operations and the amount of cash expended on debt repayments, capital projects, stock repurchases, or additional acquisitions, if any. We believe that our existing resources, together with the cash available from the credit facility and the cash we expect to generate from continuing operations, will be sufficient to meet the capital requirements of our operations for the foreseeable future.

We completed our acquisition of Johnson on May 11, 2005 for $101.5 million, subject to a further post-closing adjustment as outlined in the Purchase Agreement for Johnson. The parties also agreed in the Purchase Agreement to an earn-out provision, based on the achievement of certain revenue targets between the closing date and July 1, 2006, which could increase the purchase price by up to $8 million. In addition to the cash consideration, we issued a letter of credit to the sellers for $4 million, subject to adjustment, related to certain tax assets of Johnson, the value of which we expect to realize. To fund $60 million of the purchase price, we entered into a term loan and revolving credit facility (the Credit Agreement) effective as of May 9, 2005 in the aggregate principal amount of up to $85 million, including a $25 million revolver. The Credit Agreement includes a $60 million five-year term loan, which is repayable in equal quarterly installments over a five-year period. The aggregate principal to be repaid each year is as follows: $4.5 million, $9 million, $10.5 million, $13.5 million, $15 million, and $7.5 million in 2005, 2006, 2007, 2008, 2009, and 2010, respectively. Interest on the revolving loan and the term loan accrues and is payable quarterly in arrears at one of the following rates selected by Kadant (a) the prime rate plus an applicable margin (up to .25%) or (b) a eurocurrency

Liquidity and Capital Resources (continued)

rate plus an applicable margin (up to 1.25%). The applicable margin is determined based upon Kadant's total debt to earnings before interest, taxes, depreciation and amortization (EBITDA) ratio.

The obligations of Kadant under the Credit Agreement may be accelerated upon the occurrence of an event of default under the Credit Agreement, which includes customary events of default including without limitation payment defaults, defaults in the performance of affirmative and negative covenants, the inaccuracy of representations or warranties, bankruptcy and insolvency related defaults, defaults relating to such matters as ERISA, uninsured judgments and the failure to pay certain indebtedness, and a change of control default.

In addition, the Credit Agreement contains negative covenants applicable to Kadant and its subsidiaries, including financial covenants requiring Kadant to comply with a maximum consolidated leverage ratio of either 2.5 or 3.0 and a minimum consolidated fixed charge coverage ratio of 1.5, and restrictions on liens, indebtedness, fundamental changes, dispositions of property, making certain restricted payments (including dividends and stock repurchases), investments, transactions with affiliates, sale and leaseback transactions, swap agreements, changing its fiscal year, negative pledges, arrangements affecting subsidiary distributions, entering into new lines of business, and amending the documents relating to the Johnson acquisition.

The loans under the Credit Agreement are guaranteed by certain domestic subsidiaries of Kadant and secured by a pledge of 65% of the stock of the first-tier foreign subsidiaries of Kadant and the subsidiary guarantors pursuant to a Guarantee and Pledge Agreement effective as of May 9, 2005 in favor of JPMorgan Chase Bank, N.A., as agent on behalf of the lenders.

Risk Factors

In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, we wish to caution readers that the following important factors, among others, in some cases have affected, and in the future could affect, our actual results and could cause our actual results in 2005 and beyond to differ materially from those expressed in any forward-looking statements made by us, or on our behalf.

Our business is dependent on the condition of the pulp and paper industry.

We sell products primarily to the pulp and paper industry, which is a cyclical industry. Generally, the financial condition of the global pulp and paper industry corresponds to the condition of the general economy, as well as to a number of other factors, including pulp and paper production capacity relative to demand. In recent years, the industry in certain geographic regions, notably North America, has been in a prolonged downcycle, resulting in depressed pulp and paper prices, decreased spending, mill closures, consolidations, and bankruptcies, all of which have adversely affected our business. As paper companies consolidate in response to market weakness, they frequently reduce capacity and postpone or even cancel capacity addition or expansion projects. These cyclical downturns can cause our sales to decline and adversely affect our profitability.

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

During the first quarters of 2005 and 2004, approximately 57% and 59%, respectively, of our sales were to customers outside the United States, principally in Europe and Asia. International revenues are subject to a number of risks, including the following:

- agreements may be difficult to enforce and receivables difficult to collect through a foreign country's legal system;
- foreign customers may have longer payment cycles;

Risk Factors (continued)

- foreign countries may impose additional withholding taxes or otherwise tax our foreign income, impose tariffs, or adopt other restrictions on foreign trade; and
- the protection of intellectual property in foreign countries may be more difficult to enforce.

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

A significant portion of our international sales has, and may in the future, come from China. An increase in revenues, as well as our planned operation of a manufacturing and assembly facility in China, will expose us to increased risk in the event of changes in the policies of the Chinese government, political unrest, unstable economic conditions, or other developments in China or in U.S.-China relations that are adverse to trade, including enactment of protectionist legislation or trade restrictions. Orders from customers in China, particularly for large systems that have been tailored to a customer's specific requirements, involve increased credit risk due to payment terms that are applicable to doing business in China. In addition, the timing of these orders is often difficult to predict.

We are subject to intense competition in all our markets.

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

Our debt may adversely affect our cash flow and may restrict our investment opportunities.

On May 9, 2005, we entered into a Credit Agreement, consisting of a $60 million five-year term loan and a $25 million revolver. On May 11, 2005, we borrowed $60 million to fund the acquisition of Johnson under the term loan. We may also obtain additional long-term debt and working capital lines of credit to meet future financing needs, which would have the effect of increasing our total leverage.

Our leverage could have negative consequences including:

- increasing our vulnerability to adverse economic and industry conditions,
- limiting our ability to obtain additional financing,
- limiting our ability to pay dividends on or repurchase our capital stock,
- limiting our ability to acquire new products and technologies through acquisitions or licensing, and
- limiting our flexibility in planning for, or reacting to, changes in our business and the industries in which we compete.

Our indebtedness bears interest at floating rates pursuant to the terms of the Credit Agreement. As a result, our interest payment obligations on this indebtedness will increase if interest rates increase.

Our ability to satisfy our obligations and to reduce our total debt depends on our future operating performance and on economic, financial, competitive, and other factors beyond our control. Our business may not generate sufficient cash flows to meet these obligations or to successfully execute our business strategy. If we are unable to service our debt and fund our business, we may be forced to reduce or delay capital expenditures or research and development expenditures, seek additional financing or equity capital, restructure or refinance our debt or sell assets. We may not be able to obtain additional financing or refinance existing debt or sell assets on terms acceptable to us or at all.

Restrictions in our Credit Agreement may limit our activities.

Our Credit Agreement contains, and future debt instruments to which we may become subject may contain, restrictive covenants that limit our ability to engage in activities that could otherwise benefit us, including restrictions on our ability and the ability of our subsidiaries to:

- incur additional indebtedness,
- pay dividends on, redeem or repurchase our capital stock,
- make investments,
- create liens,
- sell assets,
- enter into transactions with affiliates, and
- consolidate, merge or transfer all or substantially all of our assets and the assets of our subsidiaries.

We are also required to meet specified financial ratios under the terms of our Credit Agreement. Our ability to comply with these financial restrictions and covenants is dependent on our future performance, which is subject to prevailing economic conditions and other factors, including factors that are beyond our control such as foreign exchange rates, interest rates, changes in technology and changes in the level of competition.

Our failure to comply with any of these restrictions or covenants may result in an event of default under our Credit Agreement, which could permit acceleration of the debt under that instrument and require us to repay that debt before its scheduled due date.

If an event of default occurs, we may not have sufficient funds available to make the required payments under our indebtedness. If we are unable to repay amounts owed under our Credit Agreement, those lenders may be entitled to foreclose on and sell the collateral that secures our borrowings under that agreement.

Our inability to successfully integrate Johnson into our business could have a material adverse effect on our business.

On May 11, 2005, we acquired Johnson, for approximately $102 million in cash, subject to post-closing and other adjustments outlined in the Purchase Agreement. Over the coming months, we will be working to integrate Johnson into our business. This integration will be complex, involving the merger of employees, products and services over multiple U.S. and international locations. We may not be successful in integrating this business into our current structure, or in obtaining the anticipated cost savings or synergies from the acquisition. To meet our quarterly certification requirements and in anticipation of incorporating Johnson into our 2006 Sarbanes-Oxley compliance process, we will also be performing a detailed review of Johnson's internal control structure to ensure that its controls over financial reporting are consistent with Kadant's policies and procedures. Given the multi-location structure of the Johnson business, this review will take significant time and effort, similar to Kadant's Sarbanes-Oxley compliance efforts in 2004, and will involve significant cost. We may identify control deficiencies during this process. Our ability to realize the value of the goodwill and other intangibles to be recorded for this acquisition will depend on the future cash flows of the Johnson business. If these future cash flows are below what we anticipated, we may incur future impairment losses associated with goodwill and intangibles, which could have a material adverse effect on our results of operations.

Risk Factors (continued)

Our inability to successfully identify and complete acquisitions or successfully integrate any new or previous acquisitions could have a material adverse effect on our business.

Our strategy includes the acquisition of technologies and businesses that complement or augment our existing products and services. Promising acquisitions are difficult to identify and complete for a number of reasons, including competition among prospective buyers and the need for regulatory, including antitrust, approvals. We do incur costs from time to time associated with potential acquisitions, which are deferred during the due diligence phase. Future operating results could be negatively impacted in any quarter in which we determine that a potential acquisition will not close and these associated costs are expensed. Any acquisition we may complete may be made at a substantial premium over the fair value of the net assets of the acquired company. We may not be able to complete future acquisitions, integrate any acquired businesses successfully into our existing businesses, make such businesses profitable, or realize anticipated cost savings or synergies, if any, from these acquisitions. In addition, we have previously acquired several companies and businesses. As a result of these acquisitions, we have recorded significant goodwill on our condensed consolidated balance sheet, and in conjunction with the adoption of SFAS No. 142, "Goodwill and Other Intangible Assets," in 2002, we recorded a transitional impairment charge upon the adoption of this standard. Any future impairment losses identified will be recorded as reductions to operating income, which could have a material adverse effect on our results of operations. Our ability to realize the value of the goodwill that we have recorded will depend on the future cash flows of these businesses. These cash flows depend, in part, on how well we have integrated these businesses.

Our inability to successfully complete the proposed restructuring of our Kadant Lamort subsidiary would have a negative effect on our future operating results.

In an effort to improve operating performance at our Kadant Lamort subsidiary in France, we approved a proposed restructuring of that subsidiary on November 18, 2004. This restructuring is intended to strengthen Kadant Lamort's competitive position in the European paper industry. Under French law, the proposed restructuring requires consultation with Kadant Lamort's workers' council, which represents the employees, before implementation. The restructuring primarily includes the reduction of up to 136 full-time positions in France, and is expected to be implemented in 2005. Negotiations with the workers' council are ongoing and Kadant Lamort has experienced intermittent work stoppages by employees protesting the proposed restructuring. We expect that this subsidiary will continue to experience operating losses until these restructuring actions are completed. If we were unable to complete this restructuring, our future operating results would be negatively impacted.

We may not be successful in selling our composite building products business.

On October 27, 2004, our board of directors approved a plan to sell our composite building products business (the "composites business"). We cannot predict on what terms we may sell the business or if we will be successful in selling this business at all. There are certain liabilities associated with our composites business, such as warranty obligations, which we will likely not be able to transfer to a future buyer. If we are not able to transfer these liabilities with the sale, it could have a material adverse effect on our future results of operations. Under applicable accounting rules, the results of the composites business will be reported as a discontinued operation; however, we will continue to report these results in our consolidated financial statements. For as long as we continue to own the composite building products business, our consolidated performance will continue to be subject to the risks and uncertainties related to that business, including the risks identified in the following Risk Factors.

Risk Factors (continued)

Our performance in the market for composite building products will depend on our ability to manufacture and distribute our composite building products.

Development, formulation, manufacturing, and commercialization of our composite building products require significant testing and technical expertise and our efforts may not be successful. Growth of our composite building products business requires ongoing market acceptance. Our composite building products business is subject to intense competition, particularly in the decking market, from traditional wood products and other composite lumber manufacturers, many of whom have greater financial, technical, and marketing resources than we do. As a result, we may be unable to compete successfully in this market. We have limited experience manufacturing these products at volume, cost, and quality levels sufficient to satisfy expected demand, and we have in the past and may continue to encounter difficulties in connection with any large-scale manufacturing or commercialization of these products. Our capacity may not be sufficient to meet demand without significant additional investment. In addition, the majority of our production is dependent upon a single piece of equipment. If that equipment were to fail for an extended period of time, it would have a material adverse effect on our revenues from this business in that period. We rely on distributors in the building products industry to market, distribute, and sell our products. We may be unable to produce our products in sufficient quantity to interest or retain these distributors or to add new distributors. In addition, the announcement of our proposed sale of the composites business and warranty issues may impact our relationships with our existing and proposed new distributors and may cause them to reduce or curtail their purchases of our products. If we are unable to distribute our products effectively, our revenues will decline and we will have to incur additional expenses to market these products directly.

The failure of our composite building products to perform over long periods of time could result in potential liabilities.

Our composite building products are relatively new, have not been on the market for long periods of time, and may be used in applications about which we may have little knowledge or limited experience. Because we have limited historical experience, we may be unable to predict the potential liabilities related to product warranty or product liability issues. If our products fail to perform over their warranty periods, we may not have the ability to protect ourselves adequately against this potential liability, which could adversely affect our operating results. In 2003 and 2004, we experienced a significant increase in warranty claims and warranty expense related to our composite decking products including, but not limited to, contraction of certain deck boards and excessive oxidation that affects the integrity of the plastic used in some of our decking products. Included in the increased warranty expense is the cost of exchanging material held by our distributors with new material that, we believe, is not susceptible to this oxidation issue, and our best estimate of costs related to future potential valid claims arising from installed product. Although we increased the warranty provisions accordingly, we cannot guarantee that the reserves established will be sufficient if we incur warranty claims higher than anticipated. In addition, there can be no assurance that other problems will not develop. A continued high level of warranty claims or expenses and/or failure of our products to perform or to be accepted in the marketplace would have an adverse impact on the profitability of our business and our ability to sell the composites business on favorable terms.

Economic conditions could adversely affect demand for our composite building products.

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

Risk Factors (continued)

Seasonality and weather conditions could adversely affect our business.

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

We are dependent on a single mill for the raw material used in our fiber-based granules, and we may not be able to obtain raw material on commercially reasonable terms. In addition, the manufacture of our composite building products and fiber-based granules is subject to commodity price risks.

We are dependent on a single paper mill for the fiber used in the manufacture of our fiber-based granules and composite building products. This mill has the exclusive right to supply the papermaking byproducts used in the manufacturing process. Although we believe our relationship with the mill is good, the mill could decide not to renew its contract with us at the end of 2005, or may not agree to renew on commercially reasonable terms. If this were to occur, we would be forced to find an alternative supply for this raw material. We may be unable to find an alternative supply on commercially reasonable terms or could incur excessive transportation costs if an alternative supplier were found, which would increase our manufacturing costs and might prevent prices for our products from being competitive.

In addition, we use natural gas in the production of our fiber-based granular products. We may manage our exposure to natural gas price fluctuations by entering into short-term forward contracts to purchase specified quantities of natural gas from a supplier. We may not be able to effectively manage our exposure to natural gas price fluctuations.

Our composite building products also contain plastics, which are subject to wide fluctuations in pricing and availability. Higher energy costs can increase the price of plastic significantly and rapidly. We may be unable to obtain sufficient quantities at reasonable prices, which would adversely affect our profitability and ability to produce a sufficient quantity of our products or to produce our products at competitive prices.

Our inability to protect our intellectual property could have a material adverse effect on our business. In addition, third parties may claim that we infringe their intellectual property, and we could suffer significant litigation or licensing expense as a result.

We place considerable emphasis on obtaining patent and trade secret protection for significant new technologies, products, and processes because of the length of time and expense associated with bringing new products through the development process and into the marketplace. Our success depends in part on our ability to develop patentable products and obtain and enforce patent protection for our products both in the United States and in other countries. We own numerous U.S. and foreign patents, and we intend to file additional applications, as appropriate, for patents covering our products. Patents may not be issued for any pending or future patent applications owned by or licensed to us, and the claims allowed under any issued patents may not be sufficiently broad to protect our technology. Any issued patents owned by or licensed to us may be challenged, invalidated, or circumvented, and the rights under these patents may not provide us with competitive advantages. A patent relating to our fiber-based granular products expired in the second quarter of 2004. As a result, we could be subject to increased competition in this market, which could have an adverse effect on this business. In addition, competitors may design around our technology or develop competing technologies. Intellectual property rights may also be unavailable or limited in some foreign countries, which could make it easier for competitors to capture increased market position. We could incur substantial costs to defend ourselves in suits brought against us or in suits in which we may assert our patent rights against others. An unfavorable outcome of any such litigation could have a material adverse effect on our business and results of operations. In addition, as our patents expire, we rely on trade secrets and proprietary know-how to protect our products. We cannot be sure the steps we have taken or will take in the future will be adequate to deter misappropriation of our proprietary information and intellectual property.

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

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

Fluctuations in our quarterly operating results may cause our stock price to decline.

Given the nature of the markets in which we participate and the effect of Staff Accounting Bulletin (SAB) No. 104, "Revenue Recognition," we may not be able to reliably predict future revenues and profitability, and unexpected changes may cause us to adjust our operations. A large proportion of our costs are fixed, due in part to our significant selling, research and development, and manufacturing costs. Thus, small declines in revenues could disproportionately affect our operating results. Other factors that could affect our quarterly operating results include:

- failure of our products to pass contractually agreed upon acceptance tests, which would delay or prohibit recognition of revenues under SAB No. 104;
- adverse changes in demand for and market acceptance of our products;
- competitive pressures resulting in lower sales prices of our products;
- adverse changes in the pulp and paper industry;
- delays or problems in our introduction of new products;
- our competitors' announcements of new products, services, or technological innovations;
- contractual liabilities incurred by us related to guarantees of our product performance;
- increased costs of raw materials or supplies, including the cost of energy; and
- changes in the timing of product orders.

Risk Factors (continued)

Anti-takeover provisions in our charter documents, under Delaware law, and in our shareholder rights plan could prevent or delay transactions that our shareholders may favor.

Provisions of our charter and bylaws may discourage, delay, or prevent a merger or acquisition that our shareholders may consider favorable, including transactions in which shareholders might otherwise receive a premium for their shares. For example, these provisions:

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

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

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Item 3 - Quantitative and Qualitative Disclosures About Market Risk

Our exposure to market risk from changes in interest rates and foreign currency exchange rates has not changed materially from our exposure at year-end 2004.

Item 4 - Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of April 2, 2005. The term "disclosure controls and procedures," as defined in Securities Exchange Act Rules 13a-15(e) and 15d-15(e), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by the company in the reports that it files or submits under the Securities Exchange Act is recorded, processed, summarized, and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Securities Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based upon the evaluation of our disclosure controls and procedures as April 2, 2005, our Chief Executive Officer and Chief Financial Officer concluded that as of April 2, 2005, our disclosure controls and procedures were effective at the reasonable assurance level.

(b) Changes in Internal Control Over Financial Reporting

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended) occurred during the fiscal quarter ended April 2, 2005 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II - OTHER INFORMATION

Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds

In April 2005, we issued an aggregate of 7,500 shares of our common stock, $0.01 par value per share, to our outside directors nominated for re-election at our 2005 annual meeting, pursuant to our Directors Restricted Stock Plan, as amended. Under this plan, our outside directors each receive 2,500 shares of restricted stock annually as compensation for their service as a director. The shares issued to directors are restricted from resale for three years, with certain exceptions. The shares were issued in reliance on the exemption from registration contained in Section 4(2) of the Securities Act of 1933, as amended.

The following table provides information about purchases by us of our common stock during the three months ended April 2, 2005:

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans (2)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans
1/2/05 - 1/31/05	-	-	-	$ 20,650,526
2/1/05 - 2/28/05	-	-	-	$ 20,650,526
3/1/05 - 4/2/05	-	-	-	$ 20,650,526
Total:	-	-	-	

(1) During the first quarter of 2005, we did not repurchase any of our common stock.
(2) On May 18, 2004, our board of directors approved the repurchase by us of up to $30 million of our equity securities through May 18, 2005. The epurchases may be made in the open market or in negotiated transactions, from time to time, depending on market conditions. As of April 2, 2005, we had repurchased 460,400 shares of our common stock for $9.3 million under this authorization. For the period from April 2, 2005 to May 5, 2005, we repurchased an additional 39,700 shares of our common stock for $0.7 million.

Item 6 - Exhibits

See Exhibit Index on the page immediately preceding exhibits.

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KADANT INC.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized as of the 12th day of May, 2005.

KADANT INC.

/s/ Thomas M. O'Brien

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

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KADANT INC.

EXHIBIT INDEX

Exhibit Number	Description of Exhibit
31.1	Certification of the Principal Executive Officer of the Registrant Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.
31.2	Certification of the Principal Financial Officer of the Registrant Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.
32	Certification of the Chief Executive Officer and the Chief Financial Officer of the Registrant Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

EXHIBIT 31.1

CERTIFICATION

I, William A. Rainville, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the fiscal quarter ended April 2, 2005 of Kadant Inc.;

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 5d-15(f)) for the registrant and have:

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

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

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

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

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

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

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

Date: May 12, 2005

/s/ William A. Rainville

William A. Rainville
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

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

1. I have reviewed this Quarterly Report on Form 10-Q for the fiscal quarter ended April 2, 2005 of Kadant Inc.;

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

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

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

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

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

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

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

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

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

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

Date: May 12, 2005

/s/ Thomas M. O'Brien

Thomas M. O'Brien
Chief Financial Officer

EXHIBIT 32

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

Pursuant to 18 U.S.C. Section 1350, the undersigned, William A. Rainville, Chief Executive Officer, and Thomas M. O'Brien, Chief Financial Officer, of Kadant Inc., a Delaware corporation (the "Company"), do hereby certify, to our best knowledge and belief, that:

The Quarterly Report on Form 10-Q for the fiscal quarter ended April 2, 2005 of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in this Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 12, 2005

/s/ William A. Rainville

William A. Rainville
Chief Executive Officer

/s/ Thomas M. O'Brien

Thomas M. O'Brien
Chief Financial Officer