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

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 3, 2021

OR

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

For the transition period from ________ to __________

Commission file number 001-11406

KADANT INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

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

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

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

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

As of July 30, 2021, the registrant had 11,580,305 shares of common stock outstanding.

Kadant Inc.
Quarterly Report on Form 10-Q
for the Period Ended July 3, 2021
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PART 1 – FINANCIAL INFORMATION

Item 1 – Financial Statements

KADANT INC.
Condensed Consolidated Balance Sheet
(Unaudited)

(In thousands, except share and per share amounts)	July 3, 2021	January 2, 2021
Assets		
Current Assets:		
Cash and cash equivalents	$ 73,436	$ 65,682
Restricted cash (Notes 1 and 11)	84,708	958
Accounts receivable, net of allowances of $2,654 and $2,977	106,791	91,540
Inventories	114,316	106,814
Unbilled revenue	6,481	7,576
Other current assets	19,764	17,250
Total Current Assets	405,496	289,820
Property, Plant, and Equipment, net of accumulated depreciation of $112,428 and $107,832	81,757	84,642
Other Assets	40,370	40,391
Intangible Assets, Net	151,582	160,965
Goodwill	350,271	351,753
Total Assets	$ 1,029,476	$ 927,571
Liabilities and Stockholders' Equity		
Current Liabilities:		
Current maturities of long-term obligations (Note 4)	$ 1,355	$ 1,474
Accounts payable	44,087	32,264
Accrued payroll and employee benefits	28,915	31,168
Customer deposits	40,617	29,433
Advanced billings	9,110	8,513
Other current liabilities	37,096	31,836
Total Current Liabilities	161,180	134,688
Long-Term Obligations (Note 4)	272,370	232,000
Other Long-Term Liabilities	64,800	63,978
Commitments and Contingencies (Note 10)		
Stockholders' Equity:		
Preferred stock, $.01 par value, 5,000,000 shares authorized; none issued	—	—
Common stock, $.01 par value, 150,000,000 shares authorized; 14,624,159 shares issued	146	146
Capital in excess of par value	110,529	110,824
Retained earnings	513,036	479,400
Treasury stock at cost, 3,043,854 and 3,081,919 shares	(74,587)	(75,519)
Accumulated other comprehensive items (Note 6)	(19,889)	(19,492)
Total Kadant Stockholders' Equity	529,235	495,359
Noncontrolling interest	1,891	1,546
Total Stockholders' Equity	531,126	496,905
Total Liabilities and Stockholders' Equity	$ 1,029,476	$ 927,571

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

KADANT INC.
Condensed Consolidated Statement of Income
(Unaudited)

(In thousands, except per share amounts)	Three Months Ended July 3, 2021	Three Months Ended June 27, 2020	Six Months Ended July 3, 2021	Six Months Ended June 27, 2020
Revenue (Notes 1 and 9)	$ 195,811	$ 152,860	$ 368,274	$ 311,987
Costs and Operating Expenses:				
Cost of revenue	110,493	86,412	207,241	177,216
Selling, general, and administrative expenses	49,267	45,073	98,698	90,665
Research and development expenses	3,041	2,798	5,898	5,874
Restructuring costs	—	456	—	456
	162,801	134,739	311,837	274,211
Operating Income	33,010	18,121	56,437	37,776
Interest Income	56	37	121	88
Interest Expense	(1,066)	(1,931)	(2,177)	(4,390)
Other Expense, Net	(24)	(31)	(48)	(63)
Income Before Provision for Income Taxes	31,976	16,196	54,333	33,411
Provision for Income Taxes (Note 3)	8,949	4,474	14,510	9,033
Net Income	23,027	11,722	39,823	24,378
Net Income Attributable to Noncontrolling Interest	(163)	(115)	(398)	(240)
Net Income Attributable to Kadant	$ 22,864	$ 11,607	$ 39,425	$ 24,138
Earnings per Share Attributable to Kadant (Note 2)				
Basic	$ 1.97	$ 1.01	$ 3.41	$ 2.11
Diluted	$ 1.96	$ 1.00	$ 3.39	$ 2.09
Weighted Average Shares (Note 2)				
Basic	11,579	11,482	11,566	11,457
Diluted	11,650	11,552	11,631	11,530

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

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

(In thousands)	Three Months Ended July 3, 2021	Three Months Ended June 27, 2020	Six Months Ended July 3, 2021	Six Months Ended June 27, 2020
Net Income	$ 23,027	$ 11,722	$ 39,823	$ 24,378
Other Comprehensive Items:				
Foreign currency translation adjustment	4,089	4,742	(661)	(7,832)
Post-retirement liability adjustments, net (net of tax provision of $2, $0, $12 and $20)	5	(2)	33	48
Effect of post-retirement plan settlement	—	—	—	(119)
Deferred gain (loss) on cash flow hedges (net of tax provision (benefit) of $21, $(3), $40 and $(122))	65	(24)	178	(326)
Other comprehensive items	4,159	4,716	(450)	(8,229)
Comprehensive Income	27,186	16,438	39,373	16,149
Comprehensive Income Attributable to Noncontrolling Interest	(171)	(140)	(345)	(254)
Comprehensive Income Attributable to Kadant	$ 27,015	$ 16,298	$ 39,028	$ 15,895

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

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

(In thousands)	Six Months Ended July 3, 2021	Six Months Ended June 27, 2020
Operating Activities		
Net income attributable to Kadant	$ 39,425	$ 24,138
Net income attributable to noncontrolling interest	398	240
Net income	39,823	24,378
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15,402	15,174
Stock-based compensation expense	4,026	3,516
(Benefit) provision for losses on accounts receivable	(241)	303
Loss on sale of property, plant, and equipment	91	—
Other items, net	(1,054)	(565)
Changes in current assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(15,321)	4,761
Unbilled revenue	1,005	2,706
Inventories	(7,312)	(9,372)
Other current assets	(1,780)	1,572
Accounts payable	12,904	(5,032)
Other current liabilities	15,935	(9,233)
Net cash provided by operating activities	63,478	28,208
Investing Activities		
Acquisitions, net of cash acquired	(159)	(7,066)
Purchases of property, plant, and equipment	(4,318)	(3,597)
Proceeds from sale of property, plant, and equipment	71	11
Other	537	—
Net cash used in investing activities	(3,869)	(10,652)
Financing Activities		
Repayment of long-term obligations	(47,138)	(24,160)
Proceeds from issuance of long-term obligations (Note 4)	88,888	7,000
Tax withholding payments related to stock-based compensation	(3,388)	(2,318)
Dividends paid	(5,664)	(5,381)
Proceeds from issuance of Company common stock	—	1,445
Net cash provided by (used in) financing activities	32,698	(23,414)
Exchange Rate Effect on Cash, Cash Equivalents, and Restricted Cash	(803)	(1,466)
Increase (Decrease) in Cash, Cash Equivalents, and Restricted Cash	91,504	(7,324)
Cash, Cash Equivalents, and Restricted Cash at Beginning of Period	66,640	68,273
Cash, Cash Equivalents, and Restricted Cash at End of Period	$ 158,144	$ 60,949

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

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

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

Three Months Ended July 3, 2021

(In thousands, except share and per share amounts)	Common Stock Shares	Common Stock Amount	Capital in Excess of Par Value	Retained Earnings	Treasury Stock Shares	Treasury Stock Amount	Accumulated Other Comprehensive Items	Noncontrolling Interest	Total Stockholders' Equity
Balance at April 3, 2021	14,624,159	$ 146	$ 108,064	$ 493,067	3,046,379	$ (74,649)	$ (24,040)	$ 1,720	$ 504,308
Net income	—	—	—	22,864	—	—	—	163	23,027
Dividend declared – Common Stock, $0.25 per share	—	—	—	(2,895)	—	—	—	—	(2,895)
Activity under stock plans	—	—	2,465	—	(2,525)	62	—	—	2,527
Other comprehensive items	—	—	—	—	—	—	4,151	8	4,159
Balance at July 3, 2021	14,624,159	$ 146	$ 110,529	$ 513,036	3,043,854	$ (74,587)	$ (19,889)	$ 1,891	$ 531,126

Six Months Ended July 3, 2021

(In thousands, except share and per share amounts)	Common Stock Shares	Common Stock Amount	Capital in Excess of Par Value	Retained Earnings	Treasury Stock Shares	Treasury Stock Amount	Accumulated Other Comprehensive Items	Noncontrolling Interest	Total Stockholders' Equity
Balance at January 2, 2021	14,624,159	$ 146	$ 110,824	$ 479,400	3,081,919	$ (75,519)	$ (19,492)	$ 1,546	$ 496,905
Net income	—	—	—	39,425	—	—	—	398	39,823
Dividends declared – Common Stock, $0.50 per share	—	—	—	(5,789)	—	—	—	—	(5,789)
Activity under stock plans	—	—	(295)	—	(38,065)	932	—	—	637
Other comprehensive items	—	—	—	—	—	—	(397)	(53)	(450)
Balance at July 3, 2021	14,624,159	$ 146	$ 110,529	$ 513,036	3,043,854	$ (74,587)	$ (19,889)	$ 1,891	$ 531,126

Three Months Ended June 27, 2020

(In thousands, except share and per share amounts)	Common Stock Shares	Common Stock Amount	Capital in Excess of Par Value	Retained Earnings	Treasury Stock Shares	Treasury Stock Amount	Accumulated Other Comprehensive Items	Noncontrolling Interest	Total Stockholders' Equity
Balance at March 28, 2020	14,624,159	$ 146	$ 105,457	$ 445,027	3,154,644	$ (77,302)	$ (50,554)	$ 1,498	$ 424,272
Net income	—	—	—	11,607	—	—	—	115	11,722
Dividend declared – Common Stock, $0.24 per share	—	—	—	(2,760)	—	—	—	—	(2,760)
Activity under stock plans	—	—	1,745	—	(27,079)	664	—	—	2,409
Other comprehensive items	—	—	—	—	—	—	4,691	25	4,716
Balance at June 27, 2020	14,624,159	$ 146	$ 107,202	$ 453,874	3,127,565	$ (76,638)	$ (45,863)	$ 1,638	$ 440,359

Six Months Ended June 27, 2020

(In thousands, except share and per share amounts)	Common Stock Shares	Common Stock Amount	Capital in Excess of Par Value	Retained Earnings	Treasury Stock Shares	Treasury Stock Amount	Accumulated Other Comprehensive Items	Noncontrolling Interest	Total Stockholders' Equity
Balance at December 28, 2019	14,624,159	$ 146	$ 106,698	$ 435,249	3,214,888	$ (78,778)	$ (37,620)	$ 1,384	$ 427,079
Net income	—	—	—	24,138	—	—	—	240	24,378
Dividends declared – Common Stock, $0.48 per share	—	—	—	(5,513)	—	—	—	—	(5,513)
Activity under stock plans	—	—	504	—	(87,323)	2,140	—	—	2,644
Other comprehensive items	—	—	—	—	—	—	(8,243)	14	(8,229)
Balance at June 27, 2020	14,624,159	$ 146	$ 107,202	$ 453,874	3,127,565	$ (76,638)	$ (45,863)	$ 1,638	$ 440,359

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

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

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

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

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

Interim Financial Statements

The interim condensed consolidated financial statements and related notes presented have been prepared by the Company, are unaudited, and, in the opinion of management, reflect all adjustments of a normal recurring nature necessary for a fair statement of the Company's financial position at July 3, 2021, its results of operations, comprehensive income, and stockholders' equity for the three- and six-month periods ended July 3, 2021 and June 27, 2020 and its cash flows for the six-month periods ended July 3, 2021 and June 27, 2020. Interim results are not necessarily indicative of results for a full year or for any other interim period.

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

Use of Estimates and Critical Accounting Policies

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

Note 1 to the consolidated financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended January 2, 2021 describes the significant accounting estimates and policies used in preparation of the consolidated financial statements. There have been no material changes in the Company’s significant accounting policies during the six months ended July 3, 2021.

Supplemental Cash Flow Information

	Six Months Ended	
(In thousands)	July 3, 2021	June 27, 2020
Cash Paid for Interest	$ 1,968	$ 4,186
Cash Paid for Income Taxes, Net of Refunds	$ 12,475	$ 7,036
Non-Cash Investing Activities:		
Fair value of assets acquired	$ 197	$ 9,164
Cash paid for acquired businesses	(159)	(7,537)
Liabilities Assumed of Acquired Businesses	$ 38	$ 1,627
Purchases of property, plant, and equipment in accounts payable	$ 169	$ 150
Non-Cash Financing Activities:		
Issuance of Company common stock upon vesting of restricted stock units	$ 3,628	$ 4,027
Dividends declared but unpaid	$ 2,895	$ 2,760

Restricted Cash

The Company's restricted cash generally serves as collateral for certain banker's acceptance drafts issued to vendors and for bank guarantees associated with providing assurance to customers that the Company will fulfill certain customer obligations entered into in the normal course of business. The majority of the bank guarantees will expire over the next twelve months. Restricted cash at July 3, 2021 also included $84,249,000 related to funds held in escrow for an acquisition that occurred in the third quarter of 2021. See Note 11, Subsequent Event, for further details.

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

(In thousands)	July 3, 2021	June 27, 2020	January 2, 2021	December 28, 2019
Cash and cash equivalents	$ 73,436	$ 57,499	$ 65,682	$ 66,786
Restricted cash	84,708	3,450	958	1,487
Total Cash, Cash Equivalents, and Restricted Cash	$ 158,144	$ 60,949	$ 66,640	$ 68,273

Inventories

The components of inventories are as follows:

(In thousands)	July 3, 2021	January 2, 2021
Raw Materials	$ 48,879	$ 46,413
Work in Process	24,189	17,692
Finished Goods	41,248	42,709
	$ 114,316	$ 106,814

Intangible Assets, Net

Acquired intangible assets by major asset class are as follows:

(In thousands)	Gross	Accumulated Amortization	Currency Translation	Net
July 3, 2021				
Definite-Lived				
Customer relationships	$ 173,728	$ (72,364)	$ (1,279)	$ 100,085
Product technology	56,111	(33,465)	(1,093)	21,553
Tradenames	6,027	(3,162)	(310)	2,555
Other	18,248	(14,727)	(536)	2,985
	254,114	(123,718)	(3,218)	127,178
Indefinite-Lived				
Tradenames	24,100	—	304	24,404
Acquired Intangible Assets	$ 278,214	$ (123,718)	$ (2,914)	$ 151,582
January 2, 2021				
Definite-Lived				
Customer relationships	$ 173,728	$ (65,488)	$ (1,316)	$ 106,924
Product technology	56,111	(31,655)	(1,005)	23,451
Tradenames	6,027	(2,946)	(282)	2,799
Other	18,248	(14,369)	(515)	3,364
	254,114	(114,458)	(3,118)	136,538
Indefinite-Lived				
Tradenames	24,100	—	327	24,427
Acquired Intangible Assets	$ 278,214	$ (114,458)	$ (2,791)	$ 160,965

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

Goodwill

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

(In thousands)	Flow Control	Industrial Processing	Material Handling	Total
Balance at January 2, 2021				
Gross balance	$ 101,437	$ 215,881	$ 119,944	$ 437,262
Accumulated impairment losses	—	(85,509)	—	(85,509)
Net balance	101,437	130,372	119,944	351,753
2021 Adjustments				
Currency translation	(858)	432	(1,253)	(1,679)
Acquisition	197	—	—	197
Total 2021 adjustments	(661)	432	(1,253)	(1,482)
Balance at July 3, 2021				
Gross balance	100,776	216,313	118,691	435,780
Accumulated impairment losses	—	(85,509)	—	(85,509)
Net balance	$ 100,776	$ 130,804	$ 118,691	$ 350,271

Warranty Obligations

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

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

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

	Six Months Ended	
(In thousands)	July 3, 2021	June 27, 2020
Balance at Beginning of Year	$ 7,064	$ 6,467
Provision charged to expense	2,709	2,675
Usage	(2,255)	(2,721)
Currency translation	(74)	(67)
Balance at End of Period	$ 7,444	$ 6,354

Revenue Recognition

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

The following table presents revenue by revenue recognition method:

	Three Months Ended		Six Months Ended	
(In thousands)	July 3, 2021	June 27, 2020	July 3, 2021	June 27, 2020
Point in Time	$ 175,479	$ 129,797	$ 329,896	$ 265,889
Over Time	20,332	23,063	38,378	46,098
	$ 195,811	$ 152,860	$ 368,274	$ 311,987

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

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

	Three Months Ended		Six Months Ended	
(In thousands)	July 3, 2021	June 27, 2020	July 3, 2021	June 27, 2020
Revenue by Product Type:				
Parts and Consumables	$ 124,975	$ 97,261	$ 243,082	$ 202,358
Capital	70,836	55,599	125,192	109,629
	$ 195,811	$ 152,860	$ 368,274	$ 311,987
Revenue by Geography (based on customer location):				
North America	$ 106,767	$ 88,718	201,859	182,541
Europe	55,827	37,916	100,468	73,930
Asia	24,729	16,237	46,542	32,145
Rest of World	8,488	9,989	19,405	23,371
	$ 195,811	$ 152,860	$ 368,274	$ 311,987

See Note 9, Business Segment Information, for information on the disaggregation of revenue by reportable operating segment.

The following table presents contract balances from contracts with customers:

(In thousands)	July 3, 2021	January 2, 2021
Accounts Receivable	$ 106,791	$ 91,540
Contract Assets	$ 6,481	$ 7,576
Contract Liabilities	$ 52,031	$ 39,269

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

The Company recognized revenue of $10,070,000 in the second quarter of 2021, $7,158,000 in the second quarter of 2020, $27,210,000 in the first six months of 2021 and $26,866,000 in the first six months of 2020 that was included in the contract liabilities balance at the beginning of 2021 and 2020. The majority of the Company's contracts for capital equipment have an original expected duration of one year or less. Certain capital contracts require long lead times and could take up to 24 months to complete. For contracts with an original expected duration of over one year, the aggregate amount of the transaction price allocated to the remaining unsatisfied or partially unsatisfied performance obligations as of July 3, 2021 was $12,994,000. The Company will recognize revenue for these performance obligations as they are satisfied, approximately 39% of which is expected to occur within the next twelve months and the remaining 61% within the following twelve months.

Banker's Acceptance Drafts Included in Accounts Receivable

The Company's Chinese subsidiaries may receive banker's acceptance drafts from customers as payment for their trade accounts receivable. The drafts are non-interest bearing obligations of the issuing bank and mature within six months of the origination date. The Company's Chinese subsidiaries may sell the drafts at a discount to a third-party financial institution or transfer the drafts to vendors in settlement of current accounts payable prior to the scheduled maturity date. These drafts, which totaled $10,793,000 at July 3, 2021 and $9,445,000 at January 2, 2021, are included in accounts receivable in the accompanying condensed consolidated balance sheet until the subsidiary sells the drafts to a bank and receives a discounted amount, transfers the banker's acceptance drafts in settlement of current accounts payable prior to maturity, or obtains cash payment on the scheduled maturity date.

Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

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

Recent Accounting Pronouncements Not Yet Adopted

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

2. Earnings per Share

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

	Three Months Ended		Six Months Ended	
(In thousands, except per share amounts)	July 3, 2021	June 27, 2020	July 3, 2021	June 27, 2020
Net Income Attributable to Kadant	$ 22,864	$ 11,607	$ 39,425	$ 24,138
Basic Weighted Average Shares	11,579	11,482	11,566	11,457
Effect of Stock Options, Restricted Stock Units and Employee Stock Purchase Plan Shares	71	70	65	73
Diluted Weighted Average Shares	11,650	11,552	11,631	11,530
Basic Earnings per Share	$ 1.97	$ 1.01	$ 3.41	$ 2.11
Diluted Earnings per Share	$ 1.96	$ 1.00	$ 3.39	$ 2.09

The effect of outstanding and unvested restricted stock units (RSUs) of the Company's common stock totaling 9,000 shares in the second quarter of 2021, 36,000 shares in the second quarter of 2020, 27,000 in the first six months of 2021, and 39,000 in the first six months of 2020 was not included in the computation of diluted EPS for the respective periods as the effect would have been antidilutive or, for unvested performance-based RSUs, the performance conditions had not been met as of the end of the reporting periods.

3. Provision for Income Taxes

The provision for income taxes was $14,510,000 in the first six months of 2021 and $9,033,000 in the first six months of 2020. The effective tax rate of 27% in the first six months of 2021 was higher than the Company's statutory rate of 21% primarily due to the distribution of the Company's worldwide earnings, nondeductible expenses, state taxes, and tax expense associated with the Global Intangible Low-Taxed Income (GILTI) provisions. These increases in tax expense were offset in part by a decrease in tax related to the net excess income tax benefits from stock-based compensation arrangements. The effective tax rate of 27% in the first six months of 2020 was higher than the Company's statutory rate of 21% primarily due to nondeductible expenses, the distribution of the Company's worldwide earnings, state taxes, and tax expense associated with GILTI provisions. These increases in tax expense were offset in part by a decrease in tax related to the net excess income tax benefits from stock-based compensation arrangements.

4. Long-Term Obligations

Long-term obligations are as follows:

(In thousands)	July 3, 2021	January 2, 2021
Revolving Credit Facility, due 2023	$ 258,722	$ 217,963
Senior Promissory Notes, due 2023 to 2028	10,000	10,000
Finance Leases, due 2021 to 2025	1,395	1,631
Other Borrowings, due 2021 to 2023	3,608	3,880
Total	273,725	233,474
Less: Current Maturities of Long-Term Obligations	(1,355)	(1,474)
Long-Term Obligations	$ 272,370	$ 232,000

See Note 8, Fair Value Measurements and Fair Value of Financial Instruments, for the fair value information related to the Company's long-term obligations.

Revolving Credit Facility

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

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

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

In the first six months of 2021, the Company borrowed an aggregate of $88,888,000 under the Credit Agreement, including $85,888,000 of euro-denominated borrowings, which was primarily used to fund an acquisition that closed in the third quarter of 2021. See Note 11, Subsequent Event, for further details. As of July 3, 2021, the outstanding balance under the Credit Agreement was $258,722,000, which included $113,722,000 of euro-denominated borrowings. As of July 3, 2021, the Company had $140,546,000 of borrowing capacity available under its Credit Agreement, which was calculated by translating its foreign-denominated borrowings using borrowing date foreign exchange rates.

The weighted average interest rate for the outstanding balance under the Credit Agreement was 1.48% as of July 3, 2021.

See Note 7, Derivatives, under the heading *Interest Rate Swap Agreement*, for information relating to the swap agreement used to hedge the Company's exposure to movements in the three-month USD LIBOR on its U.S. dollar-denominated debt borrowed under the Credit Agreement.

Senior Promissory Notes

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

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

Debt Compliance

As of July 3, 2021, the Company was in compliance with the covenants related to its debt obligations.

Finance Leases

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

Other Borrowings

Other borrowings include a sale-leaseback financing arrangement for a manufacturing facility in Germany. Under this arrangement, the quarterly lease payment includes principal, interest, and a payment to the landlord toward a loan receivable. The interest rate on the outstanding obligation is 1.79%. The secured loan receivable, which is included in other assets in the accompanying condensed consolidated balance sheet, was $1,339,000 at July 3, 2021. The lease arrangement provides for a fixed price purchase option, net of the projected loan receivable, of $1,576,000 at the end of the lease term in August 2022. If the Company does not exercise the purchase option for the facility, the Company will receive cash from the landlord to settle the loan receivable. As of July 3, 2021, $3,573,000 was outstanding under this obligation.

5. Stock-Based Compensation

The Company recognized stock-based compensation expense of $2,527,000 in the second quarter of 2021, $1,877,000 in the second quarter of 2020, $4,026,000 in the first six months of 2021, and $3,516,000 in the first six months of 2020 within selling, general, and administrative (SG&A) expenses in the accompanying condensed consolidated statement of income. The Company recognizes compensation expense for all stock-based awards granted to employees and directors based on the grant date estimate of fair value for those awards. The fair value of RSUs is based on the grant date price of the Company's common stock, reduced by the present value of estimated dividends foregone during the requisite service period. For time-based RSUs, compensation expense is recognized ratably over the requisite service period for the entire award based on the grant date fair value, and net of actual forfeitures recorded when they occur. For performance-based RSUs, compensation expense is recognized ratably over the requisite service period for each separately vesting portion of the award based on the grant date fair value, net of actual forfeitures recorded when they occur, and remeasured each reporting period until the total number of RSUs to be issued is known. Unrecognized compensation expense related to stock-based compensation totaled approximately $11,872,000 at July 3, 2021 and will be recognized over a weighted average period of 1.9 years.

On May 19, 2021, the Company granted an aggregate of 5,045 RSUs to its non-employee directors with a grant date fair value of $850,000. Half of these RSUs vested on June 1, 2021 and the remaining RSUs will vest ratably on the last day of the third and fourth fiscal quarters of 2021.

6. Accumulated Other Comprehensive Items

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

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

(In thousands)	Foreign Currency Translation Adjustment	Post-Retirement Benefit Liability Adjustments	Deferred Loss on Cash Flow Hedges	Total
Balance at January 2, 2021	$ (17,894)	$ (770)	$ (828)	$ (19,492)
Other comprehensive items before reclassifications	(608)	13	9	(586)
Reclassifications from AOCI	—	20	169	189
Net current period other comprehensive items	(608)	33	178	(397)
Balance at July 3, 2021	$ (18,502)	$ (737)	$ (650)	$ (19,889)

Amounts reclassified from AOCI are as follows:

(In thousands)	Three Months Ended July 3, 2021	Three Months Ended June 27, 2020	Six Months Ended July 3, 2021	Six Months Ended June 27, 2020	Statement of Income Line Item
Post-retirement Benefit Plans					
Recognized net actuarial loss	$ (11)	$ (14)	$ (22)	$ (29)	Other expense, net
Amortization of prior service cost	(3)	(1)	(6)	(3)	Other expense, net
Total expense before income taxes	(14)	(15)	(28)	(32)	
Income tax benefit	4	4	8	128	Provision for income taxes
	(10)	(11)	(20)	96	
Cash Flow Hedges (a)					
Interest rate swap agreements	(113)	(72)	(222)	(106)	Interest expense
Forward currency-exchange contracts	—	—	—	(23)	Cost of revenue
Total expense before income taxes	(113)	(72)	(222)	(129)	
Income tax benefit	27	17	53	31	Provision for income taxes
	(86)	(55)	(169)	(98)	
Total Reclassifications	$ (96)	$ (66)	$ (189)	$ (2)	

(a) See Note 7, Derivatives, for additional information.

7. Derivatives

Interest Rate Swap Agreement

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

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

The counterparty to the 2018 Swap Agreement could demand an early termination of that agreement if the Company were to be in default under the Credit Agreement, or any agreement that amends or replaces the Credit Agreement in which the counterparty is a member, and if it were to be unable to cure the default. See Note 4, Long-Term Obligations, for further details.

Forward Currency-Exchange Contracts

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

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

Gains and losses reported within SG&A expenses in the accompanying condensed consolidated statement of income associated with the Company's forward currency-exchange contracts that were not designated as hedges were not material for the three-and six-month periods ended July 3, 2021 and June 27, 2020.

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

		July 3, 2021		January 2, 2021	
(In thousands)	Balance Sheet Location	Asset (Liability) (a)	Notional Amount (b)	Asset (Liability) (a)	Notional Amount
Derivatives Designated as Hedging Instruments:					
Derivatives in an Asset Position:					
Forward currency-exchange contract	Other Current Assets	$ —	$ —	$ 25	$ 842
Derivatives in a Liability Position:					
Forward currency-exchange contract	Other Current Liabilities	$ (6)	$ 842	$ —	$ —
2018 Swap Agreement	Other Long-Term Liabilities	$ (850)	$ 15,000	$ (1,099)	$ 15,000
Derivatives Not Designated as Hedging Instruments:					
Derivatives in an Asset Position:					
Forward currency-exchange contracts	Other Current Assets	$ —	$ —	$ 12	$ 582
Derivatives in a Liability Position:					
Forward currency-exchange contracts	Other Current Liabilities	$ —	$ —	$ (7)	$ 825

(a) See Note 8, Fair Value Measurements and Fair Value of Financial Instruments, for the fair value measurements relating to these financial instruments.
(b) The 2021 notional amounts are indicative of the level of the Company's recurring derivative activity.

The following table summarizes the activity in AOCI associated with the Company's derivative instruments designated as cash flow hedges as of and for the six months ended July 3, 2021:

(In thousands)	Interest Rate Swap Agreement	Forward Currency-Exchange Contract	Total
Unrealized (Loss) Gain, Net of Tax, at January 2, 2021	$ (846)	$ 18	$ (828)
Loss reclassified to earnings (a)	169	—	169
Gain (loss) recognized in AOCI	32	(23)	9
Unrealized Loss, Net of Tax, at July 3, 2021	$ (645)	$ (5)	$ (650)

(a) See Note 6, Accumulated Other Comprehensive Items, for the income statement classification.

As of July 3, 2021, the Company expects to reclassify losses of $348,000 from AOCI to earnings over the next twelve months based on the estimated cash flows of the 2018 Swap Agreement and the maturity date of the forward currency-exchange contract.

8. Fair Value Measurements and Fair Value of Financial Instruments

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

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

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

	Fair Value as of July 3, 2021			
(In thousands)	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds and time deposits	$ 11,250	$ —	$ —	$ 11,250
Banker's acceptance drafts (a)	$ —	$ 10,793	$ —	$ 10,793
Liabilities:				
2018 Swap Agreement	$ —	$ 850	$ —	$ 850
Forward currency-exchange contract	$ —	$ 6	$ —	$ 6

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

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

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

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

	July 3, 2021		January 2, 2021	
(In thousands)	Carrying Value	Fair Value	Carrying Value	Fair Value
Debt Obligations:				
Revolving credit facility	$ 258,722	$ 258,722	$ 217,963	$ 217,963
Senior promissory notes	10,000	11,095	10,000	11,157
	$ 268,722	$ 269,817	$ 227,963	$ 229,120

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

9. Business Segment Information

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

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

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

	Three Months Ended		Six Months Ended	
(In thousands)	July 3, 2021	June 27, 2020	July 3, 2021	June 27, 2020
Revenue				
Flow Control	$ 70,762	$ 51,365	$ 134,516	$ 108,514
Industrial Processing	82,681	65,673	151,835	130,382
Material Handling	42,368	35,822	81,923	73,091
	$ 195,811	$ 152,860	$ 368,274	$ 311,987
Income Before Provision for Income Taxes				
Flow Control (a)	$ 19,324	$ 10,260	$ 34,770	$ 23,590
Industrial Processing (b)	17,301	10,639	28,434	20,075
Material Handling	5,592	3,593	10,035	7,727
Corporate (c)	(9,207)	(6,371)	(16,802)	(13,616)
Total operating income	33,010	18,121	56,437	37,776
Interest expense, net (d)	(1,010)	(1,894)	(2,056)	(4,302)
Other expense, net (d)	(24)	(31)	(48)	(63)
	$ 31,976	$ 16,196	$ 54,333	$ 33,411
Capital Expenditures				
Flow Control	$ 368	$ 337	$ 702	$ 1,158
Industrial Processing	1,191	211	2,995	1,675
Material Handling	495	283	616	681
Corporate	5	80	5	83
	$ 2,059	$ 911	$ 4,318	$ 3,597

(a) Includes acquisition costs of $239,000 in the three months ended July 3, 2021 and $1,236,000 in the six months ended July 3, 2021 and restructuring costs of $456,000 in the three- and six-month periods ended June 27, 2020.
(b) Includes $435,000 of acquisition-related expense in the three- and six-month periods ended June 27, 2020. Acquisition-related expenses include amortization expense associated with backlog and acquisition costs.

(c) Represents general and administrative expenses.
(d) The Company does not allocate interest and other expense, net to its segments.

10. Commitments and Contingencies

Right of Recourse

In the ordinary course of business, the Company's Chinese subsidiaries may receive banker's acceptance drafts from customers as payment for their trade accounts receivable. The drafts are non-interest bearing obligations of the issuing bank and mature within six months of the origination date. The Company's Chinese subsidiaries may use these banker's acceptance drafts prior to the scheduled maturity date to settle outstanding accounts payable with vendors. Banker's acceptance drafts transferred to vendors are subject to customary right of recourse provisions prior to their scheduled maturity dates. The Company had $9,723,000 at July 3, 2021 and $7,568,000 at January 2, 2021 of banker's acceptance drafts subject to recourse, which were transferred to vendors and had not reached their scheduled maturity dates. Historically, the banker's acceptance drafts have settled upon maturity without any claim of recourse against the Company.

Litigation

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

11. Subsequent Event

Acquisition

In the third quarter of 2021, Kadant Germany Holding GmbH, a subsidiary of the Company, acquired all partnership interests and shares in The Clouth Group of Companies (Clouth), for approximately 78,000,000 euros, or $92,000,000, net of cash acquired and debt assumed. The majority of the Clouth companies were acquired on July 19, 2021 and the acquisition of the last legal entity occurred on August 10, 2021. The Company funded the purchase price with existing cash and borrowings of approximately $82,877,000 of euro-denominated funds under the Credit Agreement, of which $78,749,000 was borrowed in the second quarter of 2021. At July 3, 2021, $84,249,000 of the purchase price was held in escrow and was classified as restricted cash in the accompanying condensed consolidated balance sheet. Clouth is a leading manufacturer of doctor blades and related equipment used in the production of paper, packaging, and tissue and will be included within the Company's Flow Control segment. The Company expects several synergies in connection with this acquisition, including deepening the Company's presence in the growing ceramic blade market and expansion of sales at its existing businesses by leveraging Clouth's complementary global geographic footprint. Clouth has two manufacturing facilities in Germany and one in Poland and generated revenue of approximately 41,000,000 euros in 2020. The excess of the purchase price for the acquisition of Clouth over the net assets acquired will be recorded as goodwill. The purchase price allocation for this acquisition is not presented as the preliminary valuation of Clouth has not been completed.

Unaudited Supplemental Pro Forma Information

Had the acquisition of Clouth been completed as of the beginning of 2020, the Company’s pro forma results of operations for the three- and six-month periods ended July 3, 2021 and June 27, 2020 would have been as follows:

	Three Months Ended		Six Months Ended	
(In thousands, except per share amounts)	July 3, 2021	June 27, 2020	July 3, 2021	June 27, 2020
Revenue	$ 207,740	$ 164,248	$ 392,128	$ 334,796
Net Income Attributable to Kadant	$ 23,663	$ 10,276	$ 41,522	$ 20,147
Earnings per Share Attributable to Kadant				
Basic	$ 2.04	$ 0.89	$ 3.59	$ 1.76
Diluted	$ 2.03	$ 0.89	$ 3.57	$ 1.75

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

Pro forma results include the following non-recurring pro forma adjustments that were directly attributable to the acquisition:

- Estimated pre-tax charge to cost of revenue of $1,753,000 in the three months ended June 27, 2020 and $3,505,000 in the six months ended June 27, 2020, for the sale of inventory revalued at the date of acquisition.
- Estimated pre-tax charge to SG&A expenses of $239,000 in the three months ended June 27, 2020 and $1,673,000 in the six months ended June 27, 2020 and reversal of $239,000 in the three months ended July 3, 2021 and $1,236,000 in the six months ended July 3, 2021, for acquisition costs and intangible asset amortization related to acquired backlog.
- Estimated tax effects related to the pro forma adjustments.

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

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

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

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

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

Overview

Company Background

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

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

- *Flow Control* – Custom-engineered products, systems, and technologies that control the flow of fluids used in industrial and commercial applications to keep critical processes running efficiently in the packaging, tissue, food, metals, and other industrial sectors. Our primary products include rotary sealing devices, steam systems, expansion joints, doctor systems, roll and fabric cleaning devices, and filtration and fiber recovery systems.

- *Industrial Processing* – Equipment, machinery, and technologies used to recycle paper and paperboard and process timber for use in the packaging, tissue, wood products, and alternative fuel industries, among others. Our primary products include stock-preparation systems and recycling equipment, chemical pulping equipment, debarkers, stranders, chippers, and logging machinery. In addition, we provide industrial automation and digitization solutions to process industries.
- *Material Handling* – Products and engineered systems used to handle bulk and discrete materials for secondary processing or transport in the aggregates, mining, food, and waste management industries, among others. Our primary products include conveying and vibratory equipment and balers. In addition, we manufacture and sell biodegradable, absorbent granules used as carriers in agricultural applications and for oil and grease absorption.

Industry and Business Overview

We had record consolidated bookings of $213 million in the second quarter of 2021, including record bookings for capital equipment and continued strong demand for our parts and consumables products. This follows previous consolidated bookings records set in the prior two quarters as our businesses continue to rebound from the impact of the COVID-19 pandemic, which adversely affected our bookings and revenue for a substantial part of 2020. We ended the second quarter of 2021 with a record consolidated backlog of $242 million. An overview of our business by segment is as follows:

- *Flow Control* – Orders for our parts and consumables products at our Flow Control businesses began to recover in the latter part of 2020 and this trend continued through the second quarter of 2021. This was due in part to customer maintenance requirements and pent-up demand resulting from the adverse effect of pandemic-related downtimes and shutdowns, as well as visitation restrictions at many customer facilities earlier in 2020. Capital equipment bookings increased in 2021 from depressed levels during most of 2020 resulting from improved market conditions and pent-up demand for our products. We expect orders for our existing products to moderate in the second half of the year while revenues are expected to remain strong due to a record backlog at the end of the second quarter of 2021. The results related to our acquisition of The Clouth Group of Companies (Clouth) in the third quarter of 2021 will be included in this segment going forward. See *Acquisitions* below for further details.
- *Industrial Processing* – We had record bookings in the second quarter at our Industrial Processing segment, led by capital equipment orders at our Chinese stock-preparation business. Bookings for parts and consumables products continue to be strong across our stock-preparation businesses due to the ongoing recovery from the downturn encountered in 2020. Additionally, we saw continued strong demand for our wood processing products, which we expect to continue through the second half of 2021. This demand was fueled by a robust U.S. housing market and high demand for lumber, oriented strand board and plywood, which has increased mill run rates resulting in higher parts consumption and capital equipment investment by our customers.
- *Material Handling* – Bookings at our Material Handling segment have improved from depressed levels in mid-2020. Demand for our baling products continues to be bolstered by improved business conditions in Europe, including the recovery of recycled commodity prices. Orders for parts and consumables products at our conveying and screening business have also rebounded from 2020 levels due to increased customer spending as a result of the relaxation of pandemic-related shutdowns and visitation restrictions, while bookings for capital equipment have moderated.

While we have seen improved market conditions and increased demand for our products and we expect our financial results for the remainder of 2021 to be strong, there is still some uncertainty surrounding near-term economic growth due to risks surrounding the COVID-19 pandemic, including the impact of the Delta variant. Additionally, we may also be impacted by supply chain constraints and inflationary pressure on material costs, as well as travel and visitation restrictions in certain regions of the world. For more information on risks related to health epidemics to our business, including COVID-19, please see Part I, Item 1A, *Risk Factors*, included in our Annual Report on Form 10-K for the fiscal year ended January 2, 2021.

International Sales

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

Global Trade

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

Acquisitions

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

In the third quarter of 2021, we acquired Clouth for approximately 78 million euros, or $92.0 million, net of cash acquired and debt assumed. The majority of Clouth companies were acquired on July 19, 2021 and the acquisition of the last legal entity occurred on August 10, 2021. Clouth is a leading manufacturer of doctor blades and related equipment used in the production of paper, packaging, and tissue and will be included in our Flow Control segment. We expect several synergies in connection with this acquisition, including deepening our presence in the growing ceramic blade market and expansion of product sales at our existing businesses by leveraging Clouth's complementary global geographic footprint. Clouth has two manufacturing facilities in Germany and one in Poland and generated revenue of approximately 41 million euros in 2020. See Note 11, Subsequent Event, in the accompanying condensed consolidated financial statements for further details.

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

Results of Operations

Second Quarter 2021 Compared With Second Quarter 2020

Revenue

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

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

	Three Months Ended					(Non-GAAP) Change in Organic Revenue	
(In thousands, except percentages)	July 3, 2021	June 27, 2020	Total Increase	% Change	Currency Translation	Increase	% Change
Flow Control	$ 70,762	$ 51,365	$ 19,397	38 %	$ 3,787	$ 15,610	30 %
Industrial Processing	82,681	65,673	17,008	26 %	6,213	10,795	16 %
Material Handling	42,368	35,822	6,546	18 %	1,574	4,972	14 %
Consolidated Revenue	$ 195,811	$ 152,860	$ 42,951	28 %	$ 11,574	$ 31,377	21 %

Consolidated revenue in the second quarter of 2021 increased 28%, while consolidated organic revenue increased 21%, principally driven by higher demand for parts and consumables products at our three segments and higher demand for capital equipment at our Flow Control segment as described below.

Revenue at our Flow Control segment increased 38% in the second quarter of 2021, while organic revenue increased 30%. The increase in organic revenue resulted from higher demand for both capital equipment and parts and consumables products at substantially all locations. Organic revenue for capital equipment increased in the second quarter of 2021 due to improved market conditions and pent-up demand for our products while the corresponding 2020 period was adversely impacted by customer reductions in capital equipment spending and deferrals of equipment installations. Increased demand for parts and consumables products in the second quarter of 2021 was due in part to maintenance requirements at many of our customer locations and pent-up demand, while the second quarter of 2020 was depressed as a result of customer downtimes and shutdowns as well as visitation restrictions due to the COVID-19 pandemic.

Revenue at our Industrial Processing segment increased 26% in the second quarter of 2021, while organic revenue increased 16%. Organic revenue increased due to higher demand for both parts and consumables products and capital equipment at our wood processing business, driven by continued near-capacity mill run rates resulting in higher parts consumption and increased capital investment. Organic revenue at our stock-preparation business was relatively flat with increased revenue due to pent-up demand for parts and consumables products and improved capital equipment revenue at our Chinese business, partially offset by lower capital equipment revenue at our North American business due to timing of orders.

Revenue at our Material Handling segment increased 18% in the second quarter of 2021, while organic revenue increased 14%. Organic revenue increased at our baling business due to improved business conditions in Europe, including the recovery of recycled commodity prices. Organic revenue at our conveying and screening business was relatively flat due to lower capital equipment revenue as a result of the completion of a multi-year project early in the second quarter of 2021, offset by the impact of pent-up demand for parts and consumables products, which was depressed in 2020 as a result of customer shutdowns and visitation restrictions due to the COVID-19 pandemic.

Gross Profit Margin

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

	Three Months Ended		
	July 3, 2021	June 27, 2020	Basis Point Change
Flow Control	52.8%	53.5%	(70) bps
Industrial Processing	40.1%	40.9%	(80) bps
Material Handling	34.9%	33.8%	110 bps
Consolidated Gross Profit Margin	43.6%	43.5%	10 bps

Consolidated gross profit margin was relatively unchanged in the second quarter of 2021 compared with the second quarter of 2020. We received benefits from government employee retention assistance programs of $0.5 million, or 0.3% of revenue, in the second quarter of 2021 compared with $1.3 million, or 0.8% of revenue, in the second quarter of 2020. Offsetting the impact of the decrease in benefits received from these programs was an increase in consolidated gross profit margin due to an improved gross profit margin at our Material Handling segment as described below. We do not anticipate significant benefits from government employee retention assistance programs in the future.

Gross profit margin at our Flow Control segment decreased to 52.8% in the second quarter of 2021 compared with 53.5% in the second quarter of 2020 primarily due to a lower proportion of higher-margin parts and consumables revenue. We expect gross profit margin for this segment to decline in the second half of the year due to the impact of the amortization of acquired profit in inventory related to the Clouth acquisition.

Gross profit margin at our Industrial Processing segment decreased to 40.1% in the second quarter of 2021 compared with 40.9% in the second quarter of 2020 due to a decrease in benefits received from government employee retention assistance programs.

Gross profit margin at our Material Handling segment increased in the second quarter of 2021 compared with the second quarter of 2020 primarily due to a greater proportion of higher-margin parts and consumables revenue at our conveying and screening business.

Selling, General, and Administrative Expenses

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

	Three Months Ended					
(In thousands, except percentages)	July 3, 2021	% of Revenue	June 27, 2020	% of Revenue	Increase (Decrease)	% Change
Flow Control	$ 17,064	24 %	$ 15,798	31 %	$ 1,266	8%
Industrial Processing	14,367	17 %	14,920	23 %	(553)	(4)%
Material Handling	8,682	20 %	8,094	23 %	588	7%
Corporate	9,154	N/A	6,261	N/A	2,893	46%
Consolidated SG&A Expenses	$ 49,267	25 %	$ 45,073	29 %	$ 4,194	9%

Consolidated SG&A expenses as a percentage of revenue decreased to 25% in the second quarter of 2021 compared with 29% in the second quarter of 2020 primarily due to higher revenue in the 2021 period. Consolidated SG&A expenses increased in the second quarter of 2021 compared with the second quarter of 2020 principally due to $2.6 million from the unfavorable effect of currency translation and incremental incentive compensation resulting from our improved financial performance. SG&A expenses included benefits received from government employee retention assistance programs of $1.0 million in the second quarter of 2021 and $0.8 million in the second quarter of 2020.

SG&A expenses at our Flow Control segment increased in the second quarter of 2021 compared with the second quarter of 2020 principally due to the unfavorable effect of foreign currency translation of $1.0 million and $0.2 million for acquisition transaction costs related to the July 2021 acquisition of Clouth.

SG&A expenses at our Industrial Processing segment decreased in the second quarter of 2021 compared with the second quarter of 2020 principally due to reduced professional service fees, including a reduction of $0.4 million for acquisition transaction costs, and $0.6 million of insurance proceeds received in the second quarter of 2021. These decreases were offset in part by an increase of $1.2 million from the unfavorable effect of foreign currency translation.

SG&A expenses at our Material Handling segment increased in the second quarter of 2021 compared with the second quarter of 2020 principally due to the unfavorable effect of foreign currency translation.

SG&A expenses at Corporate increased in the second quarter of 2021 compared with the second quarter of 2020 primarily due to additional incentive compensation as a result of improved financial performance and, to a lesser extent, higher professional service fees.

Restructuring Costs

Restructuring costs were $0.5 million in the second quarter of 2020, which represented severance costs for 30 employees within our Flow Control segment related to a restructuring plan implemented in response to the slowdown in the global economy that was largely driven by the impact of the COVID-19 pandemic.

Interest Expense

Interest expense decreased to $1.1 million in the second quarter of 2021 from $1.9 million in the second quarter of 2020 due to lower outstanding debt and a lower weighted-average interest rate.

Provision for Income Taxes

Our provision for income taxes increased to $8.9 million in the second quarter of 2021 from $4.5 million in the second quarter of 2020 and represented 28% of pre-tax income in both periods. The effective tax rate in the second quarter of 2021 was higher than our statutory rate of 21% primarily due to the distribution of our worldwide earnings, nondeductible expenses, state taxes, and tax expense associated with Global Intangible Low-Taxed Income (GILTI) provisions. The effective tax rate in the second quarter of 2020 was higher than our statutory rate of 21% primarily due to nondeductible expenses, the distribution of our worldwide earnings, state taxes, and tax expense associated with GILTI. These increases in tax expense were offset in part by a decrease in tax related to the net excess income tax benefits from stock-based compensation arrangements.

Net Income

Net income increased $11.3 million to $23.0 million in the second quarter of 2021 from $11.7 million in the second quarter of 2020 primarily due to a $14.9 million increase in operating income and a $0.9 million decrease in interest expense, offset in part by a $4.5 million increase in provision for income taxes (see discussions above for further details).

<u>First Six Months 2021 Compared With First Six Months 2020</u>

Revenue

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

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

(In thousands, except percentages)	Six Months Ended July 3, 2021	Six Months Ended June 27, 2020	Total Increase	% Change	Currency Translation	Acquisition	(Non-GAAP) Change in Organic Revenue Increase	(Non-GAAP) Change in Organic Revenue % Change
Flow Control	$ 134,516	$ 108,514	$ 26,002	24 %	$ 5,417	$ —	$ 20,585	19 %
Industrial Processing	151,835	130,382	21,453	16 %	9,240	509	11,704	9 %
Material Handling	81,923	73,091	8,832	12 %	2,929	—	5,903	8 %
Consolidated Revenue	$ 368,274	$ 311,987	$ 56,287	18 %	$ 17,586	$ 509	$ 38,192	12 %

Consolidated revenue in the first six months of 2021 increased 18%, while consolidated organic revenue increased 12%, driven principally by higher demand for parts and consumables products at our Industrial Processing and Flow Control segments and, to a lesser extent, capital equipment at our Flow Control segment as described below.

Revenue at our Flow Control segment increased 24% in the first six months of 2021, while organic revenue increased 19%. The increase in organic revenue resulted from higher demand for parts and consumables products and, to a lesser extent, capital equipment at substantially all locations. Increased demand for parts and consumables products was due in part to maintenance requirements at many of our customer locations and pent-up demand, while the 2020 period was depressed as a result of customer downtimes and shutdowns as well as visitation restrictions due to the COVID-19 pandemic. Organic revenue for capital equipment increased in the first six months of 2021 due to improved market conditions and pent-up demand for our products, particularly in the second quarter, while the corresponding 2020 period was adversely impacted by customer reductions in capital spending and deferrals of equipment installations due to the COVID-19 pandemic.

Revenue at our Industrial Processing segment increased 16% in the first six months of 2021, while organic revenue increased 9%. Organic revenue for our wood processing business increased due to higher demand for parts and consumables products and, to a lesser extent, capital equipment driven by continued near-capacity mill run rates resulting in higher parts consumption and increased capital investment. Additionally, organic revenue was positively impacted by pent-up demand for parts and consumables products at our stock-preparation business. These increases were offset in part by a decline in capital equipment revenue at our stock-preparation business, particularly in the first quarter of 2021, due to curtailed capital equipment spending by our customers in 2020, which impacted capital revenue in 2021.

Revenue at our Material Handling segment increased 12% in the first six months of 2021, while organic revenue increased 8% due to improved business conditions for our baling business, including the recovery of recycled commodity prices.

Gross Profit Margin

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

	Six Months Ended July 3, 2021	Six Months Ended June 27, 2020	Basis Point Change	
Flow Control	53.0%	53.2%	(20)	bps
Industrial Processing	40.3%	39.7%	60	bps
Material Handling	34.8%	34.7%	10	bps
Consolidated Gross Profit Margin	43.7%	43.2%	50	bps

Consolidated gross profit margin increased to 43.7% in the first six months of 2021 compared with 43.2% in the first six months of 2020. We received benefits from government employee retention assistance programs of $0.9 million, or 0.2% of revenue, in the first six months of 2021 compared with $1.3 million, or 0.4% of revenue, in the first six months of 2020. Offsetting the impact of the decrease in benefits received from these programs was an increase in consolidated gross profit margin primarily due to an improved gross profit margin at our Industrial Processing segment as described below.

Gross profit margin at our Flow Control segment decreased slightly to 53.0% in the first six months of 2021 compared with 53.2% in the first six months of 2020.

Gross profit margin at our Industrial Processing segment increased to 40.3% in the first six months of 2021 compared with 39.7% in the first six months of 2020 due to improved margins at our wood processing business primarily resulting from manufacturing efficiencies related to higher production volumes.

Gross profit margin at our Material Handling segment was relatively unchanged in the first six months of 2021 compared with the first six months of 2020.

Selling, General, and Administrative Expenses

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

	Six Months Ended					
(In thousands, except percentages)	July 3, 2021	% of Revenue	June 27, 2020	% of Revenue	Increase	% Change
Flow Control	$ 34,568	26 %	$ 31,740	29 %	$ 2,828	9%
Industrial Processing	30,030	20 %	28,740	22 %	1,290	4%
Material Handling	17,468	21 %	16,775	23 %	693	4%
Corporate	16,632	N/A	13,410	N/A	3,222	24%
Consolidated SG&A Expenses	$ 98,698	27 %	$ 90,665	29 %	$ 8,033	9%

Consolidated SG&A expenses as a percentage of revenue decreased to 27% in the first six months of 2021 compared with 29% in the first six months of 2020 principally due to higher revenue. Consolidated SG&A expenses increased in the first six months of 2021 compared with the first six months of 2020 due to $4.3 million from the unfavorable effect of currency translation, additional incentive compensation resulting from our improved financial performance, and higher professional service fees, including an incremental $1.5 million of acquisition transaction costs. SG&A expenses included benefits received from government employee retention assistance programs of $1.2 million in the first six months of 2021 and $0.8 million in the first six months of 2020.

SG&A expenses at our Flow Control segment increased in the first six months of 2021 compared with the first six months of 2020 principally due to $1.5 million from the unfavorable effect of foreign currency translation and $1.2 million of acquisition transaction costs related to the July 2021 acquisition of Clouth.

SG&A expenses at our Industrial Processing segment increased in the first six months of 2021 compared with the first six months of 2020 principally due to $2.1 million from the unfavorable effect of foreign currency translation, partially offset by reduced professional service fees in the 2021 period, including a reduction of $0.4 million of acquisition transaction costs.

SG&A expenses at our Material Handling segment increased in the first six months of 2021 compared with the first six months of 2020 due to the unfavorable effect of foreign currency translation.

SG&A expenses at Corporate increased in the first six months of 2021 compared with the first six months of 2020 primarily due to additional incentive compensation as result of improved financial performance and, to a lesser extent, higher professional service fees.

Restructuring Costs

See *Restructuring Costs* in Results of Operations, "Second Quarter 2021 Compared With Second Quarter 2020" for a discussion of the restructuring actions taken during the second quarter of 2020.

Interest Expense

Interest expense decreased to $2.2 million in the first six months of 2021 from $4.4 million in the first six months of 2020 due to lower outstanding debt and a lower weighted-average interest rate.

Provision for Income Taxes

Our provision for income taxes increased to $14.5 million in the first six months of 2021 from $9.0 million in the first six months of 2020 and represented 27% of pre-tax income in both periods. The effective tax rate in the first six months of 2021 was higher than our statutory rate of 21% primarily due to the distribution of our worldwide earnings, nondeductible expenses, state taxes, and tax expense associated with GILTI. These increases in tax expense were offset in part by a decrease in tax related to the net excess income tax benefits from stock-based compensation arrangements. The effective tax rate in the first six months of 2020 was higher than our statutory rate of 21% primarily due to nondeductible expenses, the distribution of our worldwide earnings, state taxes, and tax expense associated with GILTI. These increases in tax expense were offset in part by a decrease in tax related to the net excess income tax benefits from stock-based compensation arrangements.

Net Income

Net income increased $15.4 million to $39.8 million in the first six months of 2021 from $24.4 million in the first six months of 2020 primarily due to an $18.7 million increase in operating income and a $2.2 million decrease in interest expense, offset in part by a $5.5 million increase in provision for income taxes (see discussions above for further details).

Liquidity and Capital Resources

Consolidated working capital was $244.3 million at July 3, 2021, compared with $155.1 million at January 2, 2021. Consolidated working capital at July 3, 2021 included restricted cash of $84.2 million which was used to fund the acquisition of Clouth in the third quarter of 2021. See Note 11, Subsequent Event, in the notes to the accompanying condensed consolidated financial statements for further details. Cash and cash equivalents were $73.4 million at July 3, 2021, compared with $65.7 million at January 2, 2021, which included cash and cash equivalents held by our foreign subsidiaries of $69.5 million at July 3, 2021 and $63.6 million at January 2, 2021.

Cash Flows

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

	Six Months Ended	
(In thousands)	July 3, 2021	June 27, 2020
Net Cash Provided by Operating Activities	$ 63,478	$ 28,208
Net Cash Used in Investing Activities	(3,869)	(10,652)
Net Cash Provided by (Used in) Financing Activities	32,698	(23,414)
Exchange Rate Effect on Cash, Cash Equivalents, and Restricted Cash	(803)	(1,466)
Increase (Decrease) in Cash, Cash Equivalents, and Restricted Cash	$ 91,504	$ (7,324)

Operating Activities

Cash provided by operating activities increased to $63.5 million in the first six months of 2021 from $28.2 million in the first six months of 2020. Our operating cash flows are primarily from cash received from customers, offset by cash payments for items such as inventory, employee compensation, operating leases, income taxes and interest payments on outstanding debt obligations. The increase in cash provided by operating activities in the 2021 period was principally driven by improvements in both changes in working capital and net income.

Cash provided by working capital was $5.4 million in the first six months of 2021. Cash provided by working capital in 2021 included $12.9 million from accounts payable related to inventory purchases for increased order activity and $15.9 million from other current liabilities primarily due to an increase in customer deposits for capital equipment orders that will ship in the latter half of fiscal 2021 and early fiscal 2022. These sources of cash were offset in part by cash used of $15.3 million for accounts receivable principally due to revenue growth and $7.3 million for inventories related to orders that will ship in the latter half of fiscal 2021 and early fiscal 2022.

Cash used for working capital was $14.6 million in the first six months of 2020. Cash used for working capital in 2020 included $9.4 million for inventories due to delayed shipments and purchases of safety stocks of critical parts, as well as other purchases to support capital projects; $9.2 million by other current liabilities primarily due to a reduction in advance billings due to the timing and reduced level of capital orders, as well as a final payment of $2.4 million to settle our post-retirement restoration plan; and $5.0 million by accounts payable primarily due to reduced spending levels in 2020. These uses of cash were offset in part by cash provided of $4.8 million from accounts receivable due to a decline in revenue in 2020 and timing of collections.

Investing Activities

Cash used in investing activities was $3.9 million in the first six months of 2021, compared with $10.7 million in the first six months of 2020. The 2020 period included a use of cash of $7.1 million for acquisitions.

Financing Activities

Cash provided by financing activities was $32.7 million in the first six months of 2021, compared with cash used in financing activities of $23.4 million in the first six months of 2020. Repayment of long-term obligations was $47.1 million in the first six months of 2021 and $24.2 million in the first six months of 2020. Borrowings under our revolving credit facility were $88.9 million in the first six months of 2021, including $78.7 million to partially fund the acquisition of Clouth, and $7.0 million in the first six months of 2020.

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

The exchange rate effect on cash, cash equivalents, and restricted cash represents the impact of translation of cash balances at our foreign subsidiaries. The $0.8 million reduction in cash, cash equivalents, and restricted cash in the first six months of 2021 was primarily attributable to the strengthening of the U.S. dollar against the euro. The $1.5 million reduction in cash, cash equivalents, and restricted cash in the first six months of 2020 primarily related to the strengthening of the U.S. dollar against the Brazilian real, Canadian dollar, and Mexican peso.

Borrowing Capacity and Debt Obligations

We entered into an unsecured multi-currency revolving credit facility, dated as of March 1, 2017 (as amended and restated to date, the Credit Agreement). As of July 3, 2021, we have a borrowing capacity of over $400 million, including $140.5 million available under the Credit Agreement, an additional $150 million in an uncommitted, unsecured incremental borrowing facility under the Credit Agreement, and $115 million of senior promissory notes available for issuance under our uncommitted Multi-Currency Note Purchase and Private Shelf Agreement (Note Purchase Agreement). Under these agreements, our leverage ratio must be less than 3.75, or, if we elect, for the quarter during which a material acquisition occurs and for the three fiscal quarters thereafter, must be less than 4.00. As of July 3, 2021, our leverage ratio was 1.71 and we were in compliance with our debt covenants. We do not have any mandatory principal payments on our long-term debt obligations until 2023. See Note 4, Long-Term Obligations, in the accompanying condensed consolidated financial statements for additional information regarding our debt obligations.

Additional Liquidity and Capital Resources

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

We paid cash dividends of $5.7 million in the first six months of 2021. On May 20, 2021, we declared a quarterly cash dividend of $0.25 per share totaling $2.9 million that will be paid on August 12, 2021. Future declarations of dividends are subject to our board of directors' approval and may be adjusted as business needs or market conditions change. The declaration of cash dividends is subject to our compliance with the covenant in our revolving credit facility related to our consolidated leverage ratio.

We plan to make expenditures of approximately $12 to $13 million during the remainder of 2021 for property, plant, and equipment.

As of July 3, 2021, we had approximately $219.4 million of total unremitted foreign earnings. It is our intent to indefinitely reinvest $195.8 million of these earnings to support the current and future capital needs of our foreign operations, including debt repayments, if any. In the first six months of 2021, we recorded withholding taxes on the earnings in certain foreign subsidiaries that we plan to repatriate in the foreseeable future. The foreign withholding taxes that would be required if we were to remit the indefinitely-reinvested foreign earnings to the United States would be approximately $5.9 million.

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

Contractual Obligations and Other Commercial Commitments

There have been no significant changes to our contractual obligations and other commercial commitments during the first six months of 2021 compared with those disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations, set forth in Part II, Item 7, of our Annual Report on Form 10-K for the fiscal year ended January 2, 2021, except for the commitments related to the acquisition of Clouth as described in Note 11, Subsequent Event, in the accompanying condensed consolidated financial statements.

Application of Critical Accounting Policies and Estimates

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

Recent Accounting Pronouncements

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

Item 3 – Quantitative and Qualitative Disclosures About Market Risk

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

Item 4 – Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of July 3, 2021. The term "disclosure controls and procedures," as defined in Securities Exchange Act Rules 13a-15(e) and 15d-15(e), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by the company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based upon the evaluation of our disclosure controls and procedures as of July 3, 2021, our Chief Executive Officer and Chief Financial Officer concluded that as of July 3, 2021, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There have not been any changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended) during the fiscal quarter ended July 3, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1A – Risk Factors

Careful consideration should be given to the factors discussed in Part I, Item 1A, *Risk Factors*, in our Annual Report on Form 10-K for the fiscal year ended January 2, 2021, which could materially affect our business, financial condition or future results, in addition to the information set forth in this Quarterly Report on Form 10-Q.

Item 6 – Exhibits

Exhibit Number	Description of Exhibit
10.1	Fourth Amendment, dated as of May 4, 2021, to the Amended and Restated Credit Agreement, dated as of March 1, 2017, by and among the Registrant, the Foreign Subsidiary Borrowers from time to time parties thereto, the several banks and other financial institutions or entities from time to time parties thereto, and Citizens Bank, N.A., as Administrative Agent and Multicurrency Administrative Agent.
10.2	Joinder Agreement, dated as of May 4, 2021, to the Amended and Restated Credit Agreement, dated as of March 1, 2017, by and among the Registrant, the Foreign Subsidiary Borrowers from time to time parties thereto, the several banks and other financial institutions or entities from time to time parties thereto, and Citizens Bank, N.A., as Administrative Agent and Multicurrency Administrative Agent.
31.1	Certification of the Principal Executive Officer of the Registrant Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.
31.2	Certification of the Principal Financial Officer of the Registrant Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.
32	Certification of the Chief Executive Officer and the Chief Financial Officer of the Registrant Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

SIGNATURE

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

KADANT INC.

Date: August 11, 2021

/s/ Michael J. McKenney

Michael J. McKenney
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Exhibit 10.1

FOURTH AMENDMENT TO AMENDED AND RESTATED CREDIT AGREEMENT

This FOURTH AMENDMENT TO AMENDED AND RESTATED CREDIT AGREEMENT (this "Fourth Amendment"), dated as of May 4, 2021 and, made by and among KADANT INC., a Delaware corporation (the "Borrower"), the Subsidiary Guarantors party hereto, the Foreign Subsidiary Borrowers party hereto, the several banks and other financial institutions or entities parties hereto (the "Lenders"), CITIZENS BANK, N.A., as administrative agent (the "Administrative Agent"), and CITIZENS BANK, N.A., as multicurrency administrative agent (the "Multicurrency Administrative Agent"; together with the Administrative Agent, the "Agents").

Background

The Borrower, the Subsidiary Guarantors, the Foreign Subsidiary Borrowers, the Agents and the Lenders entered into an Amended and Restated Credit Agreement dated as of March 1, 2017, as amended by that certain First Amendment dated as of May 24, 2017, that certain Limited Consent dated as of December 9, 2018, that certain Second Amendment to Amended and Restated Credit Agreement dated as of December 14, 2018, and that certain Third Amendment to Amended and Restated Credit Agreement dated as of March 16, 2020 (the "Original Credit Agreement"), as amended by this Fourth Amendment and as further amended, modified or supplemented from time to time, the "Credit Agreement".

The Borrower has requested that the Agents and the Lenders amend the Original Credit Agreement in the manner set forth herein.

Capitalized terms not defined herein shall have the meanings given such terms in the Original Credit Agreement. This Fourth Amendment constitutes a Loan Document for all purposes under the Credit Agreement and the other Loan Documents.

NOW, THEREFORE, in consideration of the promises and the agreements, provisions and covenants herein contained, the Borrower, the Subsidiary Guarantors, the Foreign Subsidiary Borrowers, the Agents and the Lenders hereby agree as follows:

1. Amendments to Original Credit. Subject to the terms and conditions herein contained and in reliance on the representations and warranties of the Borrower herein contained, effective upon satisfaction of the conditions precedent contained in Section 2 below, the following amendments are incorporated into the Original Credit Agreement:

(A) The definition of "Foreign Subsidiary Borrowers" set forth in Section 1.1 of the Original Credit Agreement is hereby amended by deleting it in its entirety and replacing it with the following:

> "Foreign Subsidiary Borrowers": each Foreign Subsidiary of the Borrower that becomes a party hereto as of the date hereof or hereafter; provided that, without the prior written consent of the Administrative Agent and each of the Lenders, the only Foreign Subsidiaries of the Borrower permitted to become parties hereto shall be Kadant U.K. Limited, Kadant Johnson Europe B.V, Kadant Canada Corp., Kadant Johnson Deutschland GmbH, Kadant Cayman Ltd. and Kadant Luxembourg S.à.r.l.

The foregoing amendments are limited to those set forth herein and is not a commitment or agreement to grant any amendment in the future.

2. Conditions Precedent.

The provisions of this Fourth Amendment shall be effective as of the date on which all of the following conditions shall be satisfied:

(a) the Borrower, each Subsidiary Guarantor and each Foreign Subsidiary Borrower shall have delivered to the Agents an executed counterpart of this Fourth Amendment;

(b) the Agents and the Lenders shall have indicated their consent and agreement by executing this Fourth Amendment;

(c) Kadant Cayman Ltd. shall have and executed and delivered to the Agents a Joinder Agreement in form and substance satisfactory to the Agents;

(d) The Agents shall have received (i) such certificates or resolutions or other action, incumbency certificates and/or other certificates of Responsible Officers of Kadant Cayman Ltd. as the Agents may require evidencing the identity, authority and capacity of each Responsible Officer thereof authorized to act as a Responsible Officer in connection with this Agreement and the other Loan Documents; (ii) such documents and certifications as the Agents may reasonably require to evidence that Kadant Cayman Ltd. is duly organized or formed, and that Kadant Cayman Ltd. is validly existing, in good standing and qualified to engage in business in each jurisdiction where its ownership, lease or operation of properties or the conduct of its business requires such qualification, except to the extent that failure to do so could not reasonably be expected to have a Material Adverse Effect and including certified copies of the Organization Documents of Kadant Cayman Ltd; (iii) a certificate signed by a Responsible Officer of Kadant Cayman Ltd. certifying that (A) that there is no pending litigation or proceeding of or before any arbitrator or Governmental Authority and, to the knowledge of Kadant Cayman Ltd, there is no investigation or litigation, proceeding of or before any Governmental Authority threatened by or against Kadant Cayman Ltd. or against any of its properties or revenues (x) with respect to any of the Loan Documents or any of the transactions contemplated hereby or thereby or (y) that would reasonably be expected to have a Material Adverse Effect, and (B) any approvals required to enter into the transaction contemplated herein by any Governmental Authority or material third party have been obtained; and

(e) the Borrower shall have paid all of the Agents' fees and expenses and all amounts required under the Loan Documents.

3. Miscellaneous.

(a) *Ratification*. The terms and provisions set forth in this Fourth Amendment shall modify and supersede all inconsistent terms and provisions set forth in the Original Credit Agreement and except as expressly modified and superseded by this Fourth Amendment, the terms and provisions of the Original Credit Agreement and the other Loan Documents are ratified and confirmed and shall continue in full force and effect. The Borrower, the Subsidiary Guarantors, the Foreign Subsidiary Borrowers, the Agents and the Lenders agree that the Original Credit Agreement as amended hereby and the other Loan Documents shall continue to be legal, valid, binding and enforceable in accordance with their respective terms. For all matters arising prior to the effective date of this Fourth Amendment, the Original Credit Agreement (as unmodified by this Fourth Amendment) shall control.

(b) *Representations and Warranties*. The Borrower hereby represents and warrants to the Agents that the representations and warranties set forth in the Loan Documents, after giving effect to this Fourth Amendment, are true and correct in all material respects (or all respects to the extent already qualified by materiality or the occurrence of a Material Adverse Effect) on and as of the date hereof, with the same effect as though made on and as of such date except with respect to any representations and warranties limited by their terms to a specific date. The Borrower further represents and warrants to the Agents and the Lenders that the execution and delivery of this Fourth Amendment (i) are within the Borrower's, each Subsidiary Guarantor's and each Foreign Subsidiary Borrower's organizational power and authority; (ii) have been duly authorized by all necessary organizational action of the Borrower, each Subsidiary Guarantor and each Foreign Subsidiary Borrower; (iii) is not in contravention of any provision of the Borrower's, any Subsidiary Guarantor's or any Foreign Subsidiary Borrower's Organizational Documents; (iv) do not violate any law or regulation, or any order or decree of any Governmental Authority; (v) do not conflict with or result in the breach or termination of, constitute a default under or accelerate any performance required by, any material indenture, mortgage, deed of trust, lease, agreement or other material instrument to which either the Borrower, any Subsidiary Guarantor or any Foreign Subsidiary Borrower is a party or by which Borrower, any Subsidiary Guarantor, any Foreign Subsidiary Borrower or any of their property is bound. All representations and warranties made in this Fourth Amendment shall survive the execution and delivery of this Fourth Amendment.

(c) *Consent to Joinder*. It is understood and agreed that, except as set forth in Section 2(d) hereof, the Lenders waive all requirements to fulfill the conditions set forth in the first paragraph of Section 5.3 of the Credit Agreement relating to satisfaction of the conditions set forth in Section 5.1(a) of the Credit Agreement with respect to the Foreign Subsidiary.

(d) *Expenses of the Agent*. As provided in the Credit Agreement, the Borrower agrees to pay all reasonable costs and expenses incurred by the Agents in connection with the preparation, negotiation, and execution of this Fourth Amendment, including without limitation, the reasonable costs and fees of the Agents' legal counsel.

(e) *Severability*. Any provision of this Fourth Amendment held by a court of competent jurisdiction to be invalid or unenforceable shall not impair or invalidate the remainder of this Fourth Amendment and the effect thereof shall be confined to the provision so held to be invalid or unenforceable.

(f) *Applicable Law*. This Fourth Amendment shall be governed by and construed in accordance with the laws of the State of New York.

(g) *Successors and Assigns*. This Fourth Amendment is binding upon and shall inure to the benefit of the Agents, the Lenders and the Borrower, the Subsidiary Guarantors, the Foreign Subsidiary Borrowers and their respective successors and assigns.

(h) *Counterparts*. This Fourth Amendment may be executed in one or more counterparts and on facsimile counterparts or other electronic transmission, as permitted under the Original Credit Agreement, each of which when so executed shall be deemed to be an original, but all of which when taken together shall constitute one and the same agreement.

(i) *Headings*. The headings, captions, and arrangements used in this Fourth Amendment are for convenience only and shall not affect the interpretation of this Fourth Amendment.

(j) *ENTIRE AGREEMENT*. THIS FOURTH AMENDMENT EMBODIES THE ENTIRE AGREEMENT AMONG THE PARTIES HERETO WITH RESPECT TO THE SUBJECT MATTER THEREOF, AND SUPERSEDES ANY AND ALL PRIOR REPRESENTATIONS AND UNDERSTANDINGS, WHETHER WRITTEN OR ORAL, RELATING TO THIS AMENDMENT.

THERE ARE NO ORAL AGREEMENTS AMONG THE PARTIES HERETO WITH RESPECT TO THE SUBJECT MATTER HEREOF.

(k) *Acknowledgement and Reaffirmation*. Each of the Borrower, as a guarantor, and Kadant Black Clawson LLC, Kadant International Holdings LLC, Kadant Johnson LLC, Kadant Syntron Holdings, LLC, Syntron Material Handling Group, LLC, Syntron Material Handling Holdings, LLC, Syntron Material Handling Intermediate Holdings, LLC and Syntron Material Handling, LLC (collectively, the "Subsidiary Guarantors" and together with the Borrower, the "Guarantors"), hereby acknowledges the amendments effected pursuant to this Fourth Amendment and reaffirms its guaranty of the Borrower Obligations and the Foreign Subsidiary Borrower Obligations (each as defined in the Guarantee) pursuant to that certain Amended and Restated Guarantee Agreement, dated as of March 1, 2017 (as amended, supplemented or otherwise modified from time to time, the "Guarantee"), among the Guarantors and the Administrative Agent. Notwithstanding anything to the contrary contained in this Fourth Amendment or the Original Credit Agreement to the contrary, the Foreign Subsidiary Borrowers shall only be liable for their own Foreign Subsidiary Borrower Obligations and not for the obligations of the Borrower or the other Foreign Subsidiary Borrowers contained in the Original Credit Agreement, as amended by the Fourth Amendment or in any other Loan Document.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties hereto have caused this Fourth Amendment to be duly executed and delivered by their proper and duly authorized officers as of the day and year first above written.

KADANT INC.

By:/s/ Jeffrey L. Powell
Name: Jeffrey L. Powell
Title: President and CEO

KADANT U.K. LIMITED
as a Foreign Subsidiary Borrower

By:/s/ Jeffrey L. Powell
Name: Jeffrey L Powell
Title: Director

KADANT CANADA CORP.
as a Foreign Subsidiary Borrower

By:/s/ Orrin H. Bean
Name: Orrin H. Bean
Title: Treasurer

KADANT JOHNSON EUROPE B.V.
as a Foreign Subsidiary Borrower

By:/s/ Eric T. Langevin
Name: Eric T. Langevin
Title: Director

KADANT INTERNATIONAL LUXEMBOURG S.C.S.
as a Foreign Subsidiary Borrower (as a Foreign Subsidiary Borrower prior to the effectiveness of the Fourth Amendment)

By:/s/ Stacy D. Krause
Name: Stacy D. Krause
Title: Manager

KADANT LUXEMBOURG S.à r.l.,
as a Foreign Subsidiary Borrower

By:/s/ Thomas A. Martin
Name: Thomas A. Martin
Title: Class A Manager

By:/s/ Florence Gerardy
Name: Florence Gerardy
Title: Class B Manager

KADANT JOHNSON DEUTSCHLAND GmbH
as a Foreign Subsidiary Borrower

By:/s/ Eric T. Langevin
Name: Eric T. Langevin
Title: Director

KADANT CAYMAN Ltd.
as a Foreign Subsidiary Borrower

By:/s/ Alastair Loxton
Name: Alastair Loxton
Title: Director

Subsidiary Guarantors:

Kadant Black Clawson LLC

By: /s/ Orrin H. Bean
Name: Orrin H. Bean
Title: Treasurer

Kadant International Holdings LLC

By: /s/ Orrin H. Bean
Name: Orrin H. Bean
Title: Treasurer

Kadant Johnson LLC

By: /s/ Orrin H. Bean
Name: Orrin H. Bean
Title: Treasurer

Kadant Syntron Holdings, LLC

By: /s/ Orrin H. Bean
Name: Orrin H. Bean
Title: Treasurer

Syntron Material Handling Group, LLC

By:/s/ Orrin H. Bean
Name: Orrin H. Bean
Title: Treasurer

Syntron Material Handling Holdings, LLC

By:/s/ Orrin H. Bean
Name: Orrin H. Bean
Title: Treasurer

Syntron Material Handling Intermediate Holdings, LLC

By:/s/ Orrin H. Bean
Name: Orrin H. Bean
Title: Treasurer

Syntron Material Handling, LLC

By:/s/ Orrin H. Bean
Name: Orrin H. Bean
Title: Treasurer

CITIZENS BANK, N.A., as Administrative Agent and as a Lender

By: /s/ Robert Anastasio
Name: Robert Anastasio
Title: Senior Vice President

[Signature Page - Fourth Amendment to Amended and Restated Credit Agreement]

CITIZENS BANK, N.A., as Multicurrency Administrative Agent and as a Lender

By: /s/ Robert Anastasio
Name: Robert Anastasio
Title: Senior Vice President

[Signature Page - Fourth Amendment to Amended and Restated Credit Agreement]

CITIZENS BANK, N.A., as a Lender

By: /s/ Robert Anastasio
Name: Robert Anastasio
Title: Senior Vice President

[Signature Page - Fourth Amendment to Amended and Restated Credit Agreement]

WELLS FARGO BANK, NATIONAL ASSOCIATION

By: /s/ Christopher S. Allen
Name: Christopher S. Allen
Title: Senior Vice President

[Signature Page - Fourth Amendment to Amended and Restated Credit Agreement]

U.S. BANK NATIONAL ASSOCIATION

By:/s/ Kenneth R. Fieler
Name: Kenneth R. Fieler
Title: Vice President

[Signature Page - Fourth Amendment to Amended and Restated Credit Agreement]

HSBC BANK USA, N.A.

By: /s/ Kyle Patterson
Name: Kyle Patterson
Title: Senior Vice President

[Signature Page - Fourth Amendment to Amended and Restated Credit Agreement]

SANTANDER BANK, N.A.

By:/s/ Benjamin Hildreth
Name: Benjamin Hildreth
Title: Vice President

[Signature Page - Fourth Amendment to Amended and Restated Credit Agreement]

JPMORGAN CHASE BANK, N.A.

By: /s/ Brian Keenan
Name: Brian Keenan
Title: Vice President

[Signature Page - Fourth Amendment to Amended and Restated Credit Agreement]

HSBC BANK CANADA

By: /s/ Pham Hong Hai
Name: Pham Hong Hai
Title: Country Head of International Subsidiary Banking

By: /s/ Douglas Remington
Name: Douglas Remington
Title: AVP, International Subsidiary Banking

BANK OF AMERICA, N.A.

By: /s/ Robert C. Megan
Name: Robert C. Megan
Title: Senior Vice President

[Signature Page - Fourth Amendment to Amended and Restated Credit Agreement]

Exhibit 10.2

JOINDER AGREEMENT

JOINDER AGREEMENT, dated as of May 4, 2021, among Kadant CAYMAN LTD., a Cayman Islands exempted company (the "Foreign Subsidiary"), KADANT INC., a Delaware corporation (the "Borrower"), CITIZENS BANK, N.A., as administrative agent (in such capacity, the "Administrative Agent") for the several banks and other financial institutions (the "Lenders") from time to time parties to the Amended and Restated Credit Agreement, dated as of March 1, 2017, as modified by that certain First Amendment to the Amended and Restated Credit Agreement and Limited Consent, dated as of May 24, 2017, that certain Limited Consent dated as of December 9, 2018, that certain Second Amendment to Amended and Restated Credit Agreement dated as of December 14, 2018, that certain Third Amendment to Amended and Restated Credit Agreement dated as of March 16, 2020 and that certain Fourth Amendment (the "Fourth Amendment") to Amended and Restated Credit Agreement dated as of May 4, 2021 (as further amended, supplemented or otherwise modified from time to time, the "Credit Agreement"; terms defined therein being used herein as therein defined) by and among the Borrower, the Lenders, the Subsidiary Guarantors party thereto, the Foreign Subsidiary Borrowers party thereto, and the Administrative Agent.

W I T N E S S E T H:

WHEREAS, the parties to this Joinder Agreement wish to add the Foreign Subsidiary as a Foreign Subsidiary Borrower to the Credit Agreement in the manner hereinafter set forth;

NOW, THEREFORE, in consideration of the premises, the parties hereto hereby agree as follows:

1. The Foreign Subsidiary hereby acknowledges that it has received and reviewed a copy of the Credit Agreement, and acknowledges and agrees to:

(a) join the Credit Agreement as a Foreign Subsidiary Borrower, as indicated with its signature below;

(b) be bound by all covenants, agreements and acknowledgements attributable to a Foreign Subsidiary Borrower in the Credit Agreement; and

(c) perform all obligations and duties required of it by the Credit Agreement.

2. The Foreign Subsidiary is duly incorporated with limited liability as an exempted company, validly existing and in good standing under the laws of the Cayman Islands with the full power to enter into, exercise its rights and perform its obligations under this Agreement and the other Loan Documents to which it is a party.

3. The Borrower hereby represents and warrants that the representations and warranties with respect to the Foreign Subsidiary contained in Section 4 of the Credit Agreement are true and correct in all material respects on the date hereof (except to the extent that any representations and warranties relate to a specific prior date). Each of the Borrower and the

Foreign Subsidiary hereby represents and warrants that the representations and warranties with respect to the Foreign Subsidiary contained in Section 5.3 of the Credit Agreement are true and correct in all material respects on the date hereof; provided that it is acknowledged and agreed that, except as stated in Section 3(c) of the Fourth Amendment, the requirements of Section 5.3 of the Credit Agreement relating to the satisfaction of the conditions set forth in Section 5.1 of the Credit Agreement with respect to the Foreign Subsidiary are waived.

4. The address and jurisdiction of organization of the Foreign Subsidiary is set forth below:

Registered office: Maples Corporate Services Limited, PO Box 309,
Ugland House, Grand Cayman, KY1-1104, Cayman Islands

Jurisdiction of Organization: Cayman Islands

5. THIS JOINDER AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

IN WITNESS WHEREOF, each of the undersigned has caused this Joinder Agreement to be duly executed and delivered in New York, New York by its proper and duly authorized officer as of the date set forth above.

Kadant CAYMAN LTD.,
as the Foreign Subsidiary Borrower

By:/s/ Alastair Loxton
Name: Alastair Loxton
Title: Director

KADANT INC.,
as Borrower

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

ACKNOWLEDGED AND AGREED TO:

CITIZENS BANK, N.A.,
as Administrative Agent

By:/s/ Robert Anastasio
Name: Robert Anastasio
Title: Senior Vice President

Exhibit 31.1

CERTIFICATION

I, Jeffrey L. Powell, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended July 3, 2021 of Kadant Inc.;

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

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

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

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

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

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

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

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

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

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

Date: August 11, 2021

/s/ Jeffrey L. Powell

Jeffrey L. Powell
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Michael J. McKenney, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended July 3, 2021 of Kadant Inc.;

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

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

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

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

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

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

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

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

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

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

Date: August 11, 2021

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

Exhibit 32

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

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

The Quarterly Report on Form 10-Q for the period ended July 3, 2021 of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and the information contained in this Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 11, 2021	/s/ Jeffrey L. Powell
	Jeffrey L. Powell President and Chief Executive Officer
	/s/ Michael J. McKenney
	Michael J. McKenney Executive Vice President and Chief Financial Officer

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