UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 8-K/A
(Amendment No.1)

CURRENT REPORT

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

Date of report (Date of earliest event reported): January 2, 2019

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

Delaware	001-11406	52-1762325
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

One Technology Park Drive Westford, Massachusetts	01886
(Address of Principal Executive Offices)	(Zip Code)

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

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

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

o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter). 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. ☐

Explanatory Note

As previously reported in a Current Report on Form 8-K filed on January 2, 2019 (the "Initial Filing"), on January 2, 2019, Kadant Inc. (the "Company") completed its previously announced acquisition (the "Acquisition") of the equity interests of LLCP PCS Alternative Syntron, LLC and Syntron Material Handling Group, LLC (together with certain of its affiliates, "SMH") from entities affiliated with Levine Leichtman Capital Partners Private Capital Solutions, L.P. ("LLCP") pursuant to an Equity Purchase Agreement dated December 9, 2018 among the Company, LLCP PCS Alternative Syntron, LLC, Syntron Material Handling Group, LLC, PCS Alternative Corp Seller 1, LLC, PCS Alternative Corp Seller 2, LLC, SMH Equity, LLC and LLCP, solely in its capacity as the representative of the sellers (the "Acquisition Agreement") for approximately $179,000,000, subject to certain customary adjustments as further described in the Acquisition Agreement.

This Amendment No. 1 amends the Initial Filing to include the historical financial statements of Syntron Material Handling Holdings, LLC, which is a wholly-owned subsidiary of SMH and represents the consolidated operating results of SMH, and the pro forma financial information required by Item 9.01 of Form 8-K.

Item 9.01 Financial Statements and Exhibits.

(a) Financial Statements of Business Acquired.

(i) Audited Consolidated Financial Statements of Syntron Material Handling Holdings, LLC and Subsidiaries as of and for the year ended December 31, 2017 are filed as Exhibit 99.2 hereto.

(ii) Unaudited Condensed Consolidated Financial Statements of Syntron Material Handling Holdings, LLC and Subsidiaries as of and for the nine months ended September 30, 2018 are filed as Exhibit 99.3 hereto.

(b) Pro Forma Financial Information.

The following unaudited pro forma financial information is filed as Exhibit 99.4 hereto:

Unaudited Pro Forma Condensed Combined Balance Sheet as of September 29, 2018.

Unaudited Pro Forma Condensed Combined Statement of Income for the fiscal year ended December 30, 2017 and the fiscal nine months ended September 29, 2018.

Notes to the Unaudited Pro Forma Condensed Combined Financial Statements.

(d) Exhibits.

Exhibit 99.1 shall be deemed to be furnished and not filed.

Exhibit No.	Description
23	Consent of Independent Certified Public Accountants
99.1	Press Release dated January 2, 2019, announcing the completion of the Acquisition.*
99.2	Audited Consolidated Financial Statements of Syntron Material Handling Holdings, LLC and Subsidiaries as of and for the year ended December 31, 2017.
99.3	Unaudited Condensed Consolidated Financial Statements of Syntron Material Handling Holdings, LLC and Subsidiaries as of and for the nine months ended September 30, 2018.
99.4	Pro Forma Financial Information listed in Item 9.01 (b).

*Filed as Exhibit 99 to the Company’s Current Report on Form 8-K filed January 2, 2019 and incorporated herein by reference.

KADANT INC.

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 hereunto duly authorized.

KADANT INC.

Date: March 19, 2019	By: /s/ Michael J. McKenney
	Michael J. McKenney Executive Vice President and Chief Financial Officer

Exhibit 23

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We have issued our report dated March 19, 2019, with respect to the consolidated financial statements of Syntron Material Handling Holdings, LLC and subsidiaries included in this Current Report of Kadant Inc. on Form 8-K/A filed on March 19, 2019. We consent to the incorporation by reference of said report in the Registration Statements of Kadant Inc. on Form S-3 (File No. 333-229888) and on Forms S-8 (File No. 333-176371, File No. 33-67190, File No. 333-48498, File No. 333-102223, File No. 333-142247, and File No. 333-202855).

/s/ GRANT THORNTON LLP

Atlanta, GA
March 19, 2019

Exhibit 99.2

Consolidated Financial Statements
and
Report of Independent Certified Public Accountants

Syntron Material Handling Holdings, LLC and Subsidiaries

December 31, 2017

Syntron Material Handling Holdings, LLC and Subsidiaries
Table of Contents

Report of Independent Certified Public Accountants

The Members
Syntron Material Handling Holdings, LLC and subsidiaries

We have audited the accompanying consolidated financial statements of Syntron Material Handling Holdings, LLC and subsidiaries, which comprise the consolidated balance sheet as of December 31, 2017, and the related consolidated statement of operations, changes in members' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Syntron Material Handling Holdings, LLC and subsidiaries as of December 31, 2017, and the results of their operations and their cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

/s/ Grant Thornton LLP

Atlanta, Georgia
March 19, 2019

Consolidated Balance Sheet

		December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$	1,523,331
Accounts receivable, net		10,547,935
Other receivables		429,342
Inventories		10,858,531
Prepaid expenses		431,069
Other current assets		560,482
Total current assets		24,350,690
Property, plant, and equipment, net		4,749,720
Goodwill		18,152,564
Intangible assets, net		39,335,564
Total assets	$	86,588,538
Liabilities and members' equity		
Current liabilities:		
Accounts payable	$	9,018,805
Accrued liabilities		2,275,949
Customer deposits		470,914
Capitalized lease obligations - short term		236,803
Other liabilities - current		216,904
Total current liabilities		12,219,375
Capitalized lease obligations - long term		227,819
Notes payable - long term, net		51,371,033
Total liabilities		63,818,227
Members' equity		22,770,311
Total liabilities and members' equity	$	86,588,538

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

Consolidated Statement of Operations

		December 31, 2017
Revenues	$	81,991,977
Costs of goods sold		56,099,086
Gross profit		25,892,891
Selling, general, and administrative expenses		14,263,793
Research and development expenses		18,393
Operating expense - other, net		200,111
Income from operations		11,410,594
Other expenses:		
Non-operating expense		(458,705)
Interest expense		(6,222,348)
Total other expense		(6,681,053)
Income before provision for income taxes		4,729,541
Provision for income taxes		7,097
Net income	$	4,722,444

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

Consolidated Statement of Changes in Members' Equity

	Class A				Class B							
	Common Units		Amount		Common Units		Amount		Retained Earnings (Deficit)		Total Members' Equity	
Balance at December 31, 2016	270,000	$	27,000,000		—	$	—	$	(3,952,133)	$	23,047,867	
Net income for the year	—		—		—		—		4,722,444		4,722,444	
Dividend paid	—		—		—		—		(5,000,000)		(5,000,000)	
Balance at December 31, 2017	270,000	$	27,000,000		—	$	—	$	(4,229,689)	$	22,770,311	

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

Consolidated Statement of Cash Flows

December 31	2017
Cash flows from operating activities	
Net income	$ 4,722,444
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	4,266,181
Debt issuance costs amortization	268,925
Loss on disposal of property and equipment	439,721
Changes in operating assets and liabilities:	
Accounts receivable, net	(2,453,005)
Inventories	(1,304,160)
Prepaid expenses and other current assets	(364,311)
Other non-current assets	133,875
Accounts payable and accrued liabilities	2,161,115
Customer deposits	393,065
Net cash provided by operating activities	8,263,850
Cash flows from investing activities	
Proceeds from disposal of property and equipment	22,250
Purchases of property and equipment	(1,228,178)
Net cash used in investing activities	(1,205,928)
Cash flows from financing activities	
Dividends paid	(5,000,000)
Payments on capital leases	(230,500)
Proceeds from borrowings	500,000
Paydown of debt	(1,500,000)
Net cash used in financing activities	(6,230,500)
Net increase in cash and cash equivalents	827,422
Cash and cash equivalents at beginning of year	695,909
Cash and cash equivalents at end of year	$ 1,523,331
Supplemental disclosure of cash flow information:	
Cash paid during the period for interest	$ 6,133,499

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

Notes to Consolidated Financial Statements

1. Description of Business and Basis of Presentation

Description of Business

Syntron Material Handling Holdings, LLC (together with its subsidiaries and its direct parent company, the "Company") was formed on April 30, 2014.

The Company manufactures a diversified product line of conveyance and vibratory equipment used to load, transport and feed bulk materials. The Company markets its products on a global basis under the Syntron™ and Link-Belt™ brands. These products are marketed through direct sales employees and through independent representatives. The Company's corporate offices and manufacturing operations are located in Tupelo, Mississippi and Changshu, China.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary companies. All material intercompany transactions and balances have been eliminated in consolidation.

Revenue Recognition

The Company recognizes revenue in accordance with Accounting Standards Codification ("ASC") Topic 605, "Revenue Recognition." Accordingly, the Company recognizes revenue when the following criteria have been met: persuasive evidence of an arrangement exists, no significant Company obligations remain, collection of the related receivable is reasonably assured and the amounts are fixed and determinable. The Company recognizes revenue from its product sales upon transfer of title, which occurs when product is shipped to or received by its customers. The Company presents revenues net of sales taxes collected from customers.

Revenues from a limited number of fixed price contracts are recognized on the percentage of completion method, measured on the basis of incurred costs to estimated total costs for each contract. This cost to cost method is used because management considers it to be the best available measure of progress on these contracts. Based on the estimated stage of completion, a respective portion of the expected revenue is recognized. If circumstances arise that may change the original estimates of revenues, costs or extent of progress towards completion, estimates are revised.

Shipping Costs

Shipping and handling costs are expensed as incurred and are included in costs of goods sold in the accompanying statement of operations.

Cash and Cash Equivalents

The Company considers all short-term, highly liquid investments with an original maturity at the date of purchase of three months or less to be cash equivalents.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are presented at estimated net realizable value and do not include interest. An allowance for doubtful accounts is maintained for specific amounts that management estimates are uncollectible. Management determines collectability based primarily on periodic review and analysis of the account receivable aging, and prior experience of individual customers. Provisions for doubtful accounts are charged to operations at the time management determines these accounts may become uncollectible. The Company writes off accounts receivable when management determines they are uncollectible and credits payments subsequently received on such receivables to bad debt expense in the period received, if any.

Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (continued)

Following is a schedule of the changes in the allowance for doubtful accounts:

	2017
Beginning balance	$ 100,313
Provision for bad debt	(10,215)
Write-offs	(56,223)
Total allowance for doubtful accounts	$ 33,875

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is computed using standard cost, which approximates actual cost, on a first-in, first-out basis. Standard costs include direct product and direct labor costs, manufacturing overhead and outsourced costs. Management regularly reviews the estimated utility of inventory based on, among other things, historical usage, technological obsolescence and changes to the product offering. If these reviews indicate a reduction in utility below carrying value, we reduce our inventory to a new cost basis through a charge to costs of goods sold.

Property and Equipment

Property and equipment are recorded at cost, less accumulated depreciation (See Note 3). Major improvements, which extend the lives of existing property and equipment, are capitalized. Expenditures for maintenance and repairs that do not extend the lives of the underlying assets are charged to expense as incurred. Upon retirement or disposal of assets, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in the accompanying consolidated statement of operations. Leasehold improvements are amortized over the life of the lease.
Property acquired under capital leases are depreciated over the shorter of the lease term or estimated useful life of the assets. Depreciation and amortization is provided for primarily on a straight line basis over the estimated useful lives of the assets, which are as follows:

	Estimated Useful Lives
Machinery and equipment	15
Tooling equipment	7
Furniture and equipment	10
Vehicles	Life of lease
Computer hardware and software	5

Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset group to future net cash flows expected to be generated by the asset group. If the carrying amount exceeds its estimated undiscounted future cash flows, an impairment charge is recognized for the amount by which the carrying amount exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. The Company regularly evaluates whether events and circumstances have occurred that indicate the useful lives of long-lived assets may warrant revision. No impairment was recognized during 2017.

Financial Instruments

Financial instruments include cash, accounts receivable, accounts payable, accrued liabilities and long term debt. The carrying value of cash, accounts receivable, accounts payable and accrued liabilities approximates their fair market value due to their short-term nature. The estimated fair value of the Company's debt is not significantly different from its carrying value at

Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (continued)

December 31, 2017, as interest rates reflect current market rates.

Income Taxes

The Company and its domestic subsidiaries are comprised of limited liability companies. As such, these entities are treated as "pass through" entities for tax purposes and do not record any federal or state income tax provisions or tax liabilities, as the taxes are due at the member level. Syntron Material Handling Changshu is a non-domestic corporation that is subject to income taxes at a corporate level. Income tax expense (benefit) is recorded for Changshu, however deferred income taxes are not recorded as any balances are considered immaterial.

Goodwill and Intangible Assets

For identified intangible assets acquired in business combinations, the Company allocates purchase consideration based on the fair value of intangible assets acquired in accordance with ASC 805, “Business Combinations.” Goodwill represents the excess of cost over the fair value of net tangible and identifiable intangible assets acquired.

The Company tests goodwill for impairment at the reporting unit level annually and more often if an event occurs or circumstances change that indicate the fair value of a reporting unit is below its carrying amount. The Company has the option of performing a qualitative assessment of impairment to determine whether any further quantitative assessment for impairment is necessary. Factors considered in the qualitative assessment include general macroeconomic conditions, industry and market conditions, cost factors, overall financial performance, events or changes affecting the composition or carrying amount of net assets, and other relevant entity-specific events. If an election is made to bypass the qualitative assessment or if it is determined, on the basis of qualitative factors, that the fair value of the reporting unit is more likely than not less than the carrying amount, a quantitative test would be required. The Company determined on the basis of qualitative factors that the fair value of the reporting unit was not more likely than not less than the respective carrying amount, and the Company has not recorded impairment in any year.

Intangible assets deemed to have indefinite lives are not amortized but are subject to impairment tests on at least an annual basis by performing a qualitative or quantitative test. No impairment has been recorded for the year ended December 31, 2017.

For intangible assets with definite useful lives, the Company amortizes the cost over the estimated useful lives in a manner consistent with the expected use of the asset, and reviews for potential impairment whenever events or circumstances indicate that carrying amounts may not be recoverable. As of December 31, 2017, management concluded that no impairment of intangible assets with definite useful lives occurred (See Note 5). The Company also annually reviews the useful lives of each of its intangible assets.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“US GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Concentration of Credit Risk

Credit is extended to customers based on an evaluation of their financial condition and other factors. The Company generally does not require collateral or other security to support accounts receivable. The Company performs ongoing credit evaluations of its customers and maintains an allowance for doubtful accounts and is not exposed to any significant concentration of credit risk on trade accounts receivable and related allowances.

Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies (continued)

The Company maintains cash and cash equivalents at several financial institutions. Accounts at each financial institution are insured by the Federal Deposit Insurance Corporation ("FDIC"). The Company has not experienced any losses in such accounts.

Debt Issuance Costs

Amounts paid or payable to lenders in connection with the establishment of the Company's existing debt facility were capitalized and are amortized over the life of the notes using the straight-line method which approximates the effective interest method. Deferred financing costs, net of amortization expense of $268,925 totaled $628,967 as of December 31, 2017, and are presented as contra-liabilities to long-term debt, in the accompanying consolidated balance sheet.

3. Property, Plant, and Equipment

Property, plant, and equipment, net, consists of:

		2017
Machinery and equipment	$	6,118,305
Tooling equipment		430,912
Furniture and equipment		145,560
Vehicles		459,901
Computer hardware and software		1,260,161
Leasehold improvements		49,255
Construction in progress		27,725
Total property, plant and equipment		8,491,819
Less: accumulated depreciation		(3,742,099)
Total property, plant and equipment, net	$	4,749,720

Depreciation expense for the year ended December 31, 2017 was $734,790. For the year ended December 31, 2017, $353,817 of depreciation expense is included as a component of manufacturing overhead which is included in costs of goods sold within the accompanying consolidated statement of operations. For the year ended December 31, 2017, $380,973 of depreciation expense is included as a component of selling general and administrative expense within accompanying consolidated statement of operations.

4. Inventories

Inventories are comprised of:

		2017
Raw materials	$	2,339,936
Work in progress		848,676
Finished goods		8,004,450
Inventory in transit		254,285
Total inventory		11,447,347
Inventory cost adjustment		(588,816)
Total inventory, net	$	10,858,531

Notes to Consolidated Financial Statements

5. Goodwill and Other Intangible Assets

Intangible assets consist of the following:

December 31, 2017	Estimated Useful Life in Years		Gross Assets		Accumulated Amortization		Total
Tradename	Indefinite	$	11,800,000	$	—	$	11,800,000
Patents, net	1-12 years		310,000		(127,025)		182,975
Customer relationships, net	12 years		38,900,000		(11,894,543)		27,005,457
Non-compete agreements, net	5 year		1,300,000		(952,868)		347,132
Backlog	0.25 years		1,000,000		(1,000,000)		—
		$	53,310,000	$	(13,974,436)	$	39,335,564

Amortization expense of other intangible assets totaled approximately $3,531,202 for the year ended December 31, 2017 and is a component of selling, general and administrative expense within the accompanying consolidated statement of operations.

Estimated amortization expense for the next five years is as follows:

For the years ended December 31:		Amount
2018	$	3,531,202
2019		3,357,489
2020		3,271,911
2021		3,260,701
2022		3,257,419
2023 and beyond		10,856,842
	$	27,535,564

Goodwill recorded at inception of the Company is $18,152,564 as of December 31, 2017. There are no accumulated impairment losses, measurement period adjustments, or other adjustments for the year ended December 31, 2017 or for any prior period.

6. Long-Term Debt

On April 30, 2014, the Company entered into a credit agreement with CIT Finance LLC, Siemens Financial Services, Inc., and Ivy Hill Asset Management, L.P. The 2014 credit agreement includes a term loan (“2014 Term Loan”) in the amount of $55,000,000 and a revolving credit line (“2014 Revolver”) in the amount of up to $10,000,000. In addition, the Company entered into a Loan Agreement with the majority equity holder for a term loan in the principal amount of $30,000,000 (“Second Lien Subordinate Loan Agreement”) on April 30, 2014.

The 2014 Term Loan is subject to an interest rate that is equal to the sum of either the Base Rate (the higher of the prime lending rate, ½ of 1% in excess of the overnight federal funds rate, or the 3-month LIBOR rate plus 1%) or the LIBOR rate (with a LIBOR floor of 1%), and the Applicable Margin (3.5% when used with the Base Rate loan, or 4.5% when used with Eurodollar loans). The interest rate was 5.85% at December 31, 2017. Interest is due and payable on each interest payment date (last day of interest period) and at maturity. The 2014 Revolver shall bear interest until maturity at a rate per annum equal to the sum of either the Base Rate (the higher of the prime lending rate, ½ of 1% in excess of the overnight federal funds rate, or the 3-month LIBOR rate plus 1%) or LIBOR rate (with a LIBOR floor of 1%), and the Applicable Margin (3.5% when used with the Base Rate loan, or 4.5% when used with Eurodollar loans and letter of credit fees). The interest rate was 5.85% at December 31, 2017. Interest is due and payable on each interest payment date (last day of interest period) and at maturity. The Second Lien Subordinate Loan Agreement is subject to an interest rate of 16% per annum paid monthly.

Notes to Consolidated Financial Statements

6. Long-Term Debt (continued)

The 2014 Term Loan and 2014 Revolver contains a number of negative covenants restricting, among other things, payment of dividends, purchases, redemptions, or retirement of capital stock.

The credit agreement also includes financial covenants, including a minimum senior net leverage ratio and fixed charge coverage ratio to be calculated at each fiscal quarter end. The Company is required to maintain a senior net leverage ratio of not greater than 3.00:1.00, and a fixed charge coverage ratio of at least 1.25:1.00. As of December 31, 2017, the Company was in compliance with all of the covenants in each credit facility. The Second Lien Subordinate Loan Agreement contains a number of negative covenants including continued existence of the entity, tax compliance, insuring property, and maintain US GAAP accounting. The Second Lien Subordinate Loan Agreement also includes financial covenants, including a total leverage ratio less than 6.325:1.00 at year end and a fixed charge coverage ratio of no less than 1.05:1:00.

The Company has standby letters of credit to certain customers that restrict the available amount of the revolver. As of December 31, 2017, these guarantees amount to approximately $194,000.

On June 5, 2014 the Company sold land and a building for $16,000,000 and used the funds to pay down the 2014 Term Loan. Immediately after the sale, the Company entered into a 20-year leaseback for the land and building sold. The monthly lease payments are included in the future minimum payment schedule for operating leases in Note 7.

The Company's debt consisted of the following:

December 31	2017
2014 term loan	$ 22,000,000
Second lien subordinate loan agreement	30,000,000
2014 revolver	—
Less: current portion of long term debt	—
Less: deferred financing costs	(628,967)
Long term debt	$ 51,371,033

Future principal payments are as follows:

For the years ended December 31:	Amount
2018	$ —
2019	—
2020	52,000,000
	$ 52,000,000

7. Commitments and Contingencies

Leases

The Company leases its facilities under non-cancellable operating leases expiring over various dates through 2034.

At December 31, 2017, annual future minimum lease payment requirements under non-cancelable long-term operating leases are as follows:

Notes to Consolidated Financial Statements

7. Commitments and Contingencies (continued)

For the years ended December 31:		Amount
2018	$	1,387,619
2019		1,405,546
2020		1,432,416
2021		1,449,731
2022		1,472,335
2023 and beyond		20,114,433
	$	27,262,080

Rent expense amounted to approximately $1,637,931 for the year ended December 31, 2017.

The Company has entered into certain capital leases, with remaining terms that extend to 2020. The following is an analysis of the leased property under capital leases by major classes:

Classes of Property		2017
Vehicles	$	459,901
Capital computers and hardware		435,572
Less: accumulated depreciation		(439,537)
	$	455,936

The following is a schedule by years of future minimum lease payments under capital leases as of December 31, 2017.

For the years ended December 31:		Amount
2018	$	250,321
2019		151,701
2020		62,600
2021		—
Total minimum lease payments	$	464,622
Current portion of capital lease obligations		236,803
Long term portion of capital lease obligations		227,819
Capital lease obligations	$	464,622

Litigation

The Company, from time to time may be a defendant in legal proceedings in the ordinary course of business. Although it is difficult to predict the outcome of any potential or threatened litigation, management does not believe that any of these claims and proceedings against it is likely to have, individually or in the aggregate, a material adverse effect on the financial condition or results of operations. At December 31, 2017, there are no material legal issues pending or outstanding.

Notes to Consolidated Financial Statements

8. Related Party Transactions

The Company is party to a management service agreement with Levine Leichtman Capital Partners, Inc. (the "Management Company"). Under this agreement, the Management Company shall provide advice and assistance to the Company's executive management and board of directors as requested by the Company from time to time and will be reimbursed for all out of pocket expenses incurred on behalf of the Company. Minor travel expenses were reimbursed in 2017.

As of December 31, 2017, the Company’s Second Lien Subordinate Loan Agreement is with the majority equity holder for a term loan in the principal amount of $30,000,000, as described in Note 6.

9. Members' Equity

The Company currently has two authorized classes of equity per the LLC agreement. 270,000 Class A and 0 Class B units are issued and outstanding as of December 31, 2017. Class A units are voting with one vote per unit held. Class B units are non-voting.

Class A units accrue a preferred return of 10% per annum compounding annually on the last day of the year. Distributions are made first in the amount of the accrued but unpaid Class A preferred return. After the preferred return is fully paid, all remaining amounts are distributed equally among the holders of the Class A and Class B units. For the years ended December 31, 2017, the Company declared and paid cash dividends of $5,000,000, to holders of the Class A units.

The Company has an equity incentive plan for which stock options have been granted to certain members of management. As of December 31, 2017, those options have not vested and no compensation cost has been recognized in any period. The options may fully vest upon a change of control.

10. Employee Benefit Plans

The Company has a 401(k) profit-sharing plan (the "Plan") that covers all employees who are at least age 21. Participants may contribute up to 75% of their compensation to the Plan, not to exceed the maximum allowed by law. At the discretion of the Members of the Board, the Company may make additional contributions to the Plan. Company contributions charged to operations amounted to $272,879 for the year ended December 31, 2017.

11. Subsequent Event

The Company discloses material events that occur after the balance sheet date, but before the consolidated financial statements are issued. In general, these events are recognized in the consolidated financial statements if the condition existed at the date of the balance sheet, but are not recognized if the condition did not exist at the balance sheet date. The Company discloses non-recognized events if required to keep the consolidated financial statements from being misleading. In 2018, the Company declared and paid cash dividends of $6,000,000 to holders of the Class A units. Management evaluated events occurring subsequent to December 31, 2017 through March 19, 2019, the date the consolidated financial statements were available for issuance.

The Company was acquired by Kadant Inc. on January 2, 2019 for an aggregate purchase price of approximately $179,000,000, subject to certain customary adjustments.

Exhibit 99.3

Condensed Consolidated Financial Statements

Syntron Material Handling Holdings, LLC and Subsidiaries

For the Nine Months Ended September 30, 2018

(Unaudited)

Syntron Material Handling Holdings, LLC and Subsidiaries
Table of Contents

Syntron Material Handling Holdings, LLC and Subsidiaries
Condensed Consolidated Balance Sheets
(Unaudited)

	September 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 1,273,077	$ 1,523,331
Accounts receivable, net	10,654,821	10,547,935
Other receivables	293,342	429,342
Inventories	11,705,332	10,858,531
Prepaid expenses	551,838	431,069
Other current assets	529,973	560,482
Total current assets	25,008,383	24,350,690
Property, plant, and equipment, net	5,323,478	4,749,720
Goodwill	18,152,564	18,152,564
Intangible assets, net	36,687,020	39,335,564
Total assets	$ 85,171,445	$ 86,588,538
Liabilities and members' equity		
Current liabilities:		
Accounts payable	$ 6,031,330	$ 9,018,805
Accrued liabilities	2,485,998	2,275,949
Customer deposits	2,773,490	470,914
Capitalized lease obligations - short term	209,889	236,803
Other liabilities - current	710,185	216,904
Total current liabilities	12,210,892	12,219,375
Capitalized lease obligations - long term	155,125	227,819
Notes payable - long term, net	51,572,727	51,371,033
Total liabilities	63,938,744	63,818,227
Members' equity	21,232,701	22,770,311
Total liabilities and members' equity	$ 85,171,445	$ 86,588,538

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

Syntron Material Handling Holdings, LLC and Subsidiaries
Condensed Consolidated Statements of Operations
(Unaudited)

	Nine Months Ended	
	September 30, 2018	September 30, 2017
Revenues	$ 64,017,464	$ 55,433,958
Cost of goods sold	43,029,471	37,147,432
Gross profit	20,987,993	18,286,526
Selling, general, and administrative expenses	11,821,340	10,783,307
Research and development expenses	5,822	15,088
Operating expense - other, net	142,049	165,106
Income from operations	9,018,782	7,323,025
Other expenses:		
Non-operating income	2,273	18,920
Interest expense	(4,763,941)	(4,654,069)
Total other income (expense)	(4,761,668)	(4,635,149)
Income before income taxes	4,257,114	2,687,876
Provision (benefit) for income taxes	(205,276)	130,306
Net income	$ 4,462,390	$ 2,557,570

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

Syntron Material Handling Holdings, LLC and Subsidiaries
Condensed Consolidated Statements of Changes in Members' Equity
(Unaudited)

	Class A		Class B			
	Common Units	Amount	Common Units	Amount	Retained Earnings (Deficit)	Total Members' Equity
Balance at December 31, 2016	270,000	$ 27,000,000	—	$ —	$ (3,952,133)	$ 23,047,867
Net income	—	—	—	—	2,557,570	2,557,570
Dividend paid	—	—	—	—	(2,500,000)	(2,500,000)
Balance at September 30, 2017	270,000	$ 27,000,000	—	$ —	$ (3,894,563)	$ 23,105,437
Balance at December 31, 2017	270,000	$ 27,000,000	—	$ —	$ (4,229,689)	$ 22,770,311
Net income	—	—	—	—	4,462,390	4,462,390
Dividend paid	—	—	—	—	(6,000,000)	(6,000,000)
Balance at September 30, 2018	270,000	$ 27,000,000	—	$ —	$ (5,767,299)	$ 21,232,701

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

Syntron Material Handling Holdings, LLC and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ended	
	September 30, 2018	September 30, 2017
Cash flows from operating activities		
Net income	$ 4,462,390	$ 2,557,570
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,226,227	3,149,023
Debt issuance costs amortization	201,694	201,694
Gain on disposal of property and equipment	(45,480)	(5,897)
Changes in operating assets and liabilities:		
Accounts receivable, net	(106,886)	(4,565,656)
Inventories	(846,803)	(3,003,380)
Prepaid expenses and other current assets	45,740	38,856
Customer deposits	2,302,576	5,541,422
Accounts payable and accrued liabilities	(2,777,426)	120,943
Other current liabilities	493,281	487,078
Net cash provided by operating activities	6,955,313	4,521,653
Cash flows from investing activities		
Proceeds from disposal of property and equipment	55,850	22,250
Purchases of property and equipment	(1,047,315)	(973,785)
Net cash used in investing activities	(991,465)	(951,535)
Cash flows from financing activities		
Dividends paid	(6,000,000)	(2,500,000)
Payments on capital leases	(214,102)	(198,530)
Proceeds from borrowings	—	500,000
Paydown of debt	—	(1,500,000)
Net cash used in financing activities	(6,214,102)	(3,698,530)
Net decrease in cash and cash equivalents	(250,254)	(128,412)
Cash and cash equivalents at beginning of period	1,523,331	695,909
Cash and cash equivalents at end of period	$ 1,273,077	$ 567,497
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	$ 4,706,057	$ 5,585,735

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

1. Description of Business and Basis of Presentation

Description of Business

Syntron Material Handling Holdings, LLC (together with its subsidiaries and its direct parent company, the "Company") was formed on April 30, 2014.

The Company manufactures a diversified product line of conveyance and vibratory equipment used to load, transport and feed bulk materials. The Company markets its products on a global basis under the Syntron™ and Link-Belt™ brands. These products are marketed through direct sales employees and through independent representatives. The Company's corporate offices and manufacturing operations are located in Tupelo, Mississippi and Changshu, China.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary companies. All material intercompany transactions and balances have been eliminated in consolidation.

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 September 30, 2018, and its results of operations, cash flows and changes in members' equity for the nine-month periods ended September 30, 2018 and September 30, 2017. Interim results are not necessarily indicative of results for a full year or for any other interim period.

The condensed consolidated balance sheets presented as of December 31, 2017 has been derived from the audited consolidated financial statements. The condensed consolidated financial statements and related notes do not contain certain information included in the audited 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 audited consolidated financial statements and related notes for the year ended December 31, 2017.

Revenue Recognition

The Company recognizes revenue in accordance with Accounting Standards Codification ("ASC") Topic 605, "Revenue Recognition." Accordingly, the Company recognizes revenue when the following criteria have been met: persuasive evidence of an arrangement exists, no significant Company obligations remain, collection of the related receivable is reasonably assured and the amounts are fixed and determinable. The Company recognizes revenue from its product sales upon transfer of title, which occurs when product is shipped to or received by its customers. The Company presents revenues net of sales taxes collected from customers.

Revenues from a limited number of fixed price contracts are recognized on the percentage of completion method, measured on the basis of incurred costs to estimated total costs for each contract. This cost to cost method is used because management considers it to be the best available measure of progress on these contracts. Based on the estimated stage of completion, a respective portion of the expected revenue is recognized. If circumstances arise that may change the original estimates of revenues, costs or extent of progress towards completion, estimates are revised.

Shipping Costs

Shipping and handling costs are expensed as incurred and are included in costs of goods sold in the accompanying condensed consolidated statements of operations.

2. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

The Company considers all short-term, highly liquid investments with an original maturity at the date of purchase of three months or less to be cash equivalents.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are presented at estimated net realizable value and do not include interest. An allowance for doubtful accounts is maintained for specific amounts that management estimates are uncollectible. Management determines collectability based primarily on periodic review and analysis of the account receivable aging, and prior experience of individual customers. Provisions for doubtful accounts are charged to operations at the time management determines these accounts may become uncollectible. The Company writes off accounts receivable when management determines they are uncollectible and credits payments subsequently received on such receivables to bad debt expense in the period received, if any.

Following is a schedule of the changes in the allowance for doubtful accounts:

	Nine Months Ended	
	September 30, 2018	September 30, 2017
Beginning balance	$ 33,875	$ 100,313
Provision for bad debt	—	(10,215)
Write-offs	—	(56,223)
Total allowance for doubtful accounts	$ 33,875	$ 33,875

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is computed using standard cost, which approximates actual cost, on a first-in, first-out basis. Standard costs include direct product and direct labor costs, manufacturing overhead and outsourced costs. Management regularly reviews the estimated utility of inventory based on, among other things, historical usage, technological obsolescence and changes to the product offering. If these reviews indicate a reduction in utility below carrying value, we reduce our inventory to a new cost basis through a charge to costs of goods sold.

Property and Equipment

Property and equipment are recorded at cost, less accumulated depreciation (See Note 3). Major improvements, which extend the lives of existing property and equipment, are capitalized. Expenditures for maintenance and repairs that do not extend the lives of the underlying assets are charged to expense as incurred. Upon retirement or disposal of assets, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in the accompanying condensed consolidated statements of operations. Leasehold improvements are amortized over the life of the lease. Property acquired under capital leases are depreciated over the shorter of the lease term or estimated useful life of the assets. Depreciation and amortization is provided for primarily on a straight line basis over the estimated useful lives of the assets, which are as follows:

	Estimated Useful Lives
Machinery and equipment	15
Tooling equipment	7
Furniture and equipment	10
Vehicles	Life of lease
Computer hardware and software	5

2. Summary of Significant Accounting Policies (continued)

Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset group to future net cash flows expected to be generated by the asset group. If the carrying amount exceeds its estimated undiscounted future cash flows, an impairment charge is recognized for the amount by which the carrying amount exceeds the fair value of the asset. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. The Company regularly evaluates whether events and circumstances have occurred that indicate the useful lives of long-lived assets may warrant revision. No impairment was recognized during the nine months ended September 30, 2018 and 2017.

Financial Instruments

Financial instruments include cash, accounts receivable, accounts payable, accrued liabilities and long term debt. The carrying value of cash, accounts receivable, accounts payable and accrued liabilities approximates their fair market value due to their short-term nature. The estimated fair value of the Company's debt is not significantly different from its carrying value at September 30, 2018 and December 31, 2017, as interest rates reflect current market rates.

Income Taxes

The Company and its domestic subsidiaries are comprised of limited liability companies. As such, these entities are treated as "pass through" entities for tax purposes and do not record any federal or state income tax provisions or tax liabilities, as the taxes are due at the member level. Syntron Material Handling Changshu is a non-domestic corporation that is subject to income taxes at a corporate level. Income tax expense (benefit) is recorded for Changshu, however deferred income taxes are not recorded as any balances are considered immaterial.

Goodwill and Intangible Assets

For identified intangible assets acquired in business combinations, the Company allocates purchase consideration based on the fair value of intangible assets acquired in accordance with ASC 805, “Business Combinations.” Goodwill represents the excess of cost over the fair value of net tangible and identifiable intangible assets acquired.

The Company tests goodwill for impairment at the reporting unit level annually as of December 31 and more often if an event occurs or circumstances change that indicate the fair value of a reporting unit is below its carrying amount. The Company has the option of performing a qualitative assessment of impairment to determine whether any further quantitative assessment for impairment is necessary. Factors considered in the qualitative assessment include general macroeconomic conditions, industry and market conditions, cost factors, overall financial performance, events or changes affecting the composition or carrying amount of net assets, and other relevant entity-specific events. If an election is made to bypass the qualitative assessment or if it is determined, on the basis of qualitative factors, that the fair value of the reporting unit is more likely than not less than the carrying amount, a quantitative test would be required. The Company has not recorded impairment in any year.

Intangible assets deemed to have indefinite lives are not amortized but are subject to impairment tests on at least an annual basis by performing a qualitative or quantitative test. No impairment has been recorded in any period.

For intangible assets with definite useful lives, the Company amortizes the cost over the estimated useful lives in a manner consistent with the expected use of the asset, and reviews for potential impairment whenever events or circumstances indicate that carrying amounts may not be recoverable. As of September 30, 2018 and December 31, 2017, management concluded that no impairment of intangible assets with definite useful lives occurred (See Note 5). The Company also annually reviews the useful lives of each of its intangible assets.

2. Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("US GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Concentration of Credit Risk

Credit is extended to customers based on an evaluation of their financial condition and other factors. The Company generally does not require collateral or other security to support accounts receivable. The Company performs ongoing credit evaluations of its customers and maintains an allowance for doubtful accounts and is not exposed to any significant concentration of credit risk on trade accounts receivable and related allowances

The Company maintains cash and cash equivalents at several financial institutions. Accounts at each financial institution are insured by the Federal Deposit Insurance Corporation ("FDIC"). The Company has not experienced any losses in such accounts.

Debt Issuance Costs

Amounts paid or payable to lenders in connection with the establishment of the Company's existing debt facility were capitalized and are amortized over the life of the notes using the straight-line method which approximates the effective interest method. Deferred financing costs totaled $427,273 and $628,967 as of September 30, 2018 and December 31, 2017, respectively, and are presented as contra-liabilities to long-term debt in the accompanying condensed consolidated balance sheets. Amortization of deferred financing costs totaled $201,694 for both the nine months ended September 30, 2018 and 2017, and is included as a component of interest expense in the accompanying condensed consolidated statements of operations.

3. Property, Plant, and Equipment

Property, plant, and equipment, net, consists of:

	September 30, 2018	December 31, 2017
Machinery and equipment	$ 6,483,564	$ 6,118,305
Tooling equipment	504,597	430,912
Furniture and equipment	163,531	145,560
Vehicles	490,411	459,901
Computer hardware and software	1,270,364	1,260,161
Leasehold improvements	79,411	49,255
Construction in progress	598,521	27,725
Total property, plant and equipment	9,590,399	8,491,819
Less: accumulated depreciation	(4,266,921)	(3,742,099)
Total property, plant and equipment, net	$ 5,323,478	$ 4,749,720

Depreciation expense for the nine months ended September 30, 2018 and 2017 was $577,683 and $500,479, respectively. Depreciation expense included as a component of costs of goods sold within the accompanying condensed consolidated statements of operations was $322,174 and $254,562 for the nine months ended September 30, 2018 and 2017, respectively. Depreciation expense included as a component of selling, general and administrative expense within the accompanying condensed consolidated statements of operations was $255,509 and $245,917 for the nine months ended September 30, 2018 and 2017, respectively.

4. Inventories

Inventories are comprised of:

	September 30, 2018	December 31, 2017
Raw materials	$ 3,699,916	$ 2,339,936
Work in progress	751,521	848,676
Finished goods	7,398,436	8,004,450
Inventory in transit	337,743	254,285
Total inventory	12,187,616	11,447,347
Inventory cost adjustment	(482,284)	(588,816)
Total inventory, net	$ 11,705,332	$ 10,858,531

5. Goodwill and Other Intangible Assets

Intangible assets consist of the following:

September 30, 2018	Estimated Useful Life in Years	Gross Assets	Accumulated Amortization	Total
Tradename	Indefinite	$ 11,800,000	$ —	$ 11,800,000
Patents, net	1-12 years	310,000	(150,929)	159,071
Customer relationships, net	12 years	38,900,000	(14,324,573)	24,575,427
Non-compete agreements, net	5 year	1,300,000	(1,147,478)	152,522
Backlog	0.25 years	1,000,000	(1,000,000)	—
		$ 53,310,000	$ (16,622,980)	$ 36,687,020

December 31, 2017	Estimated Useful Life in Years	Gross Assets	Accumulated Amortization	Total
Tradename	Indefinite	$ 11,800,000	$ —	$ 11,800,000
Patents, net	1-12 years	310,000	(127,025)	182,975
Customer relationships, net	12 years	38,900,000	(11,894,543)	27,005,457
Non-compete agreements, net	5 year	1,300,000	(952,868)	347,132
Backlog	0.25 years	1,000,000	(1,000,000)	—
		$ 53,310,000	$ (13,974,436)	$ 39,335,564

Amortization expense of other intangible assets totaled approximately $2,648,545 for both the nine months ended September 30, 2018 and 2017 and is a component of selling, general and administrative expense within the accompanying condensed consolidated statements of operations.

Goodwill recorded at inception of the Company is $18,152,564 as of September 30, 2018 and December 31, 2017. There are no accumulated impairment losses, measurement period adjustments, or other adjustments for any period.

6. Long-Term Debt

On April 30, 2014, the Company entered into a credit agreement with CIT Finance LLC, Siemens Financial Services, Inc., and Ivy Hill Asset Management, L.P. The 2014 credit agreement includes a term loan (“2014 Term Loan”) in the amount of $55,000,000 and a revolving credit line (“2014 Revolver”) in the amount of up to $10,000,000. In addition, the Company entered into a Loan Agreement with the majority equity holder for a term loan in the principal amount of

6. Long-Term Debt (continued)

$30,000,000 ("Second Lien Subordinate Loan Agreement") on April 30, 2014.

The 2014 Term Loan is subject to an interest rate that is equal to the sum of either the Base Rate (the higher of the prime lending rate, ½ of 1% in excess of the overnight federal funds rate, or the 3-month LIBOR rate plus 1%) or the LIBOR rate (with a LIBOR floor of 1%), and the Applicable Margin (3.5% when used with the Base Rate loan, or 4.5% when used with Eurodollar loans). The interest rate was 6.74% and 5.85% at September 30, 2018 and December 31, 2017, respectively. Interest is due and payable on each interest payment date (last day of interest period) and at maturity. The 2014 Revolver shall bear interest until maturity at a rate per annum equal to the sum of either the Base Rate (the higher of the prime lending rate, ½ of 1% in excess of the overnight federal funds rate, or the 3-month LIBOR rate plus 1%) or LIBOR rate (with a LIBOR floor of 1%), and the Applicable Margin (3.5% when used with the Base Rate loan, or 4.5% when used with Eurodollar loans and letter of credit fees). The interest rate was 6.74% at September 30, 2018 and 5.85% at December 31, 2017. Interest is due and payable on each interest payment date (last day of interest period) and at maturity. The Second Lien Subordinate Loan Agreement is subject to interest rate of 16% per annum paid monthly.

The 2014 Term Loan and 2014 Revolver contains a number of negative covenants restricting, among other things, payment of dividends, purchases, redemptions, or retirement of capital stock.

The credit agreement also includes financial covenants, including a minimum senior net leverage ratio and fixed charge coverage ratio to be calculated at each fiscal quarter end. The Company is required to maintain a senior net leverage ratio of not greater than 3.00:1.00, and a fixed charge coverage ratio of at least 1.25:1.00. As of September 30, 2018, the Company was in compliance with all of the covenants in each credit facility. The Second Lien Subordinate Loan Agreement contains a number of negative covenants including continued existence of the entity, tax compliance, insuring property, and maintain US GAAP accounting. The Second Lien Subordinate Loan Agreement also includes financial covenants, including a total leverage ratio less than 6.325:1.00 at year end and a fixed charge coverage ratio of no less than 1.05:1:00.

On June 5, 2014 the Company sold land and a building for $16,000,000 and used the funds to pay down the 2014 Term Loan. Immediately after the sale, the Company entered into a 20-year leaseback for the land and building sold. The monthly lease payments are included in the future minimum payment schedule for operating leases in Note 7.

The Company's debt consisted of the following:

	September 30, 2018	December 31, 2017
2014 term loan	$ 22,000,000	$ 22,000,000
Second lien subordinate loan agreement	30,000,000	30,000,000
2014 revolver	—	—
Less: current portion of long term debt	—	—
Less: deferred financing costs	(427,273)	(628,967)
Long term debt	$ 51,572,727	$ 51,371,033

Future principal payments are as follows:

For the years ended December 31:	Amount
2018	$ —
2019	—
2020	52,000,000
	$ 52,000,000

7. Commitments and Contingencies

The Company, from time to time may be a defendant in legal proceedings in the ordinary course of business. Although it is difficult to predict the outcome of any potential or threatened litigation, management does not believe that any of these claims and proceedings against it is likely to have, individually or in the aggregate, a material adverse effect on the financial condition or results of operations. At September 30, 2018, there are no material legal issues pending or outstanding.

8. Related Party Transactions

The Company is party to a management service agreement with Levine Leichtman Capital Partners, Inc. (the "Management Company"). Under this agreement, the Management Company shall provide advice and assistance to the Company's executive management and board of directors as requested by the Company from time to time and will be reimbursed for all out of pocket expenses incurred on behalf of the Company. Minor travel expenses were reimbursed in the nine months ended September 30, 2018.

As of September 30, 2018, the Company’s Second Lien Subordinate Loan Agreement is with the majority equity holder for a term loan in the principal amount of $30,000,000, as described in Note 6.

9. Members' Equity

The Company currently has two authorized classes of equity per the LLC agreement. 270,000 Class A and 0 Class B units are issued and outstanding as of September 30, 2018. Class A units are voting with one vote per unit held. Class B units are non-voting.

Class A units accrue a preferred return of 10% per annum compounding annually on the last day of the year. Distributions are made first in the amount of the accrued but unpaid Class A preferred return. After the preferred return is fully paid, all remaining amounts are distributed equally among the holders of the Class A and Class B units. For the nine months ended September 30, 2018, the Company declared and paid cash dividends of $6,000,000, to holders of the Class A units. For the nine months ended September 30, 2017, the Company declared and paid cash dividends of $2,500,000 to holders of Class A units.

The Company has an equity incentive plan for which stock options have been granted to certain members of management. As of September 30, 2018, those options have not vested and no compensation cost has been recognized in any period. The options may fully vest upon a change of control.

10. Subsequent Event

The Company discloses material events that occur after the balance sheet date, but before the condensed consolidated financial statements are issued. In general, these events are recognized in the condensed consolidated financial statements if the condition existed at the date of the balance sheet, but are not recognized if the condition did not exist at the balance sheet date. The Company discloses non-recognized events if required to keep the condensed consolidated financial statements from being misleading. Management evaluated events occurring subsequent to September 30, 2018 through March 19, 2019, the date the condensed consolidated financial statements were available for issuance.

The Company was acquired by Kadant Inc. on January 2, 2019 for an aggregate purchase price of approximately $179,000,000, subject to certain customary adjustments.

KADANT INC.

Unaudited Pro Forma Condensed Combined Financial Information

On January 2, 2019, Kadant Inc. ("Kadant" or the "Company") completed its acquisition of the equity interests of LLCP PCS Alternative Syntron, LLC and Syntron Material Handling Group, LLC (together with certain of its affiliates, "SMH") for approximately $179,000,000, subject to certain customary adjustments.

The unaudited pro forma condensed combined balance sheet as of September 29, 2018, and the unaudited pro forma condensed combined statement of income for the fiscal year ended December 30, 2017 and for the fiscal nine months ended September 29, 2018, are presented herein. The unaudited pro forma condensed combined balance sheet information as of September 29, 2018 gives effect to the acquisition by Kadant of SMH as if it had been completed on September 29, 2018. The unaudited pro forma condensed combined statements of income for the fiscal year ended December 30, 2017 and for the fiscal nine months ended September 29, 2018, combines the historical results of Kadant and SMH and gives effect to the acquisition as if it had occurred as of the beginning of fiscal 2017.

The unaudited pro forma condensed combined financial statements presented are based on the assumptions and adjustments described in the accompanying notes. The unaudited pro forma condensed combined financial statements are presented for illustrative purposes and do not purport to represent what the financial position or results of operations would actually have been if the acquisition occurred as of the dates indicated or what such financial position or results would be for any future periods. The unaudited pro forma condensed combined financial statements are based upon the respective historical consolidated financial statements of Kadant and the consolidated financial statements of SMH, consisting of its wholly-owned subsidiary, Syntron Material Handling Holdings, LLC, which represents the consolidated operating results of SMH, and should be read in conjunction with:

- the accompanying notes to the unaudited pro forma condensed combined financial statements presented herein;
- the separate historical audited consolidated financial statements and accompanying notes of Kadant as of and for the fiscal year ended December 30, 2017, included in the Company's annual report on Form 10-K;
- the separate historical unaudited condensed consolidated financial statements and accompanying notes of Kadant as of and for the fiscal nine months ended September 29, 2018, included in the Company's quarterly report on Form 10-Q;
- the separate historical audited consolidated financial statements and accompanying notes of SMH as of and for the year ended December 31, 2017, included in this Current Report as Exhibit 99.2; and
- the separate historical unaudited condensed consolidated financial statements and accompanying notes of SMH as of and for the nine months ended September 30, 2018, included in this Current Report as Exhibit 99.3.

The following unaudited pro forma condensed combined financial statements illustrate Kadant's acquisition of SMH using the purchase method of accounting. In the unaudited pro forma condensed combined balance sheet, the purchase price to acquire SMH has been allocated to the assets acquired and liabilities assumed based upon management’s preliminary estimate of their respective fair values. Any differences between fair value of the consideration issued and the fair value of the assets and liabilities acquired are recorded as goodwill. The amounts allocated to acquired assets and liabilities in the unaudited pro forma condensed combined financial statements are based on preliminary valuation estimates. Definitive allocations will be performed and finalized based on certain valuations and other analyses that will be performed by Kadant with the assistance of outside valuation specialists. Accordingly, the purchase price allocation adjustments and related amortization reflected in the following unaudited pro forma condensed combined financial statements are preliminary, have been made solely for the purpose of preparing these statements, are subject to revision, and will be adjusted based on a final determination of the fair values.

The unaudited pro forma condensed combined statements of income also include certain purchase accounting adjustments, including items expected to have a continuing impact on the combined results, such as increased amortization expense on acquired intangible assets. The unaudited pro forma condensed combined statements of income do not include the impacts of any revenue and cost or other operating synergies that may result from the acquisition. The unaudited pro forma condensed combined statements of income do not reflect certain amounts resulting from the acquisition because we consider them to be of a non-recurring nature.

The following table represents the preliminary estimated allocation of the purchase price for Kadant's acquisition of SMH over the estimated fair value of the assets acquired and liabilities assumed. The Company is still in the process of assembling the information necessary to finalize the allocation of the total purchase price and will obtain a final supporting third party valuation for certain tangible and intangible assets. The allocation of the purchase price will likely change upon completion of this assessment process.

The allocation of the purchase price of SMH as of January 2, 2019 is as follows:

(In thousands)	Estimated Fair Value
Cash and Cash Equivalents	$ 2,411
Accounts Receivable	10,566
Inventory	13,984
Other Current Assets	714
Property, Plant, and Equipment	7,718
Other Assets	9,474
Intangible Assets	77,140
Goodwill	85,207
Total Assets Acquired	$ 207,214
Accounts Payable	$ 4,894
Customer Deposits	2,958
Other Current Liabilities	3,194
Long-Term Deferred Income Taxes	2,893
Long-Term Lease Liability	15,556
Total Liabilities Assumed	$ 29,495
Net Assets	$ 177,719
Purchase Price:	
Base Purchase Price	$ 179,000
Working Capital and Other Adjustments	(1,281)
Cash Paid to Seller Borrowed Under the Credit Agreement	$ 177,719

The estimated values of current assets, excluding inventory, and current liabilities were based upon their historical costs on the date of acquisition due to their short-term nature. Inventory, property, plant, and equipment and other assets were recorded at estimated fair value based primarily on cost and market approaches.

The following are the identifiable intangible assets acquired and the respective periods over which the assets will be amortized based on the underlying economic benefits to be realized:

(In thousands)	Amount	Weighted-Average Life
Customer Relationships	$ 52,900	15
Existing Technology	10,500	14
Tradenames	9,700	Indefinite
Other Intangibles	4,040	8
	$ 77,140	

The amount assigned to identifiable intangible assets acquired was based on their respective fair values determined as of the acquisition date with assistance from an outside valuation consultant, using income and cost approaches. The excess of the purchase price over the tangible and identifiable intangible assets was recorded as goodwill and amounted to approximately $85,207,000.

KADANT INC.

PRO FORMA CONDENSED COMBINED BALANCE SHEET
(Unaudited)

(In thousands)	September 29, 2018 Kadant Historical	SMH Historical	Pro Forma Adjustments		Pro Forma Combined
Assets					
Current Assets:					
Cash and cash equivalents	$ 57,384	$ 1,273	$ (2,972)	a	$ 55,685
Restricted cash	675	—	—		675
Accounts receivable, net	96,326	10,948	—		107,274
Inventories	91,736	11,705	3,251	b	106,692
Other current assets	21,347	1,082	—		22,429
Total Current Assets	267,468	25,008	279		292,755
Property, Plant, and Equipment, Net	79,458	5,323	2,184	c	86,965
Other Assets	13,509	—	741	d	14,250
Intangible Assets, Net	119,246	36,687	40,453	e, f	196,386
Goodwill	262,081	18,153	67,151	e, f	347,385
Total Assets	$ 741,762	$ 85,171	$ 110,808		$ 937,741
Liabilities and Stockholders' Equity					
Current Liabilities:					
Short-term obligations	$ 1,686	$ 210	$ —		$ 1,896
Accounts payable	34,761	6,031	—		40,792
Accrued payroll and employee benefits	28,677	—	—		28,677
Customer deposits	36,431	2,773	—		39,204
Other current liabilities	41,025	3,197	(996)	g	43,226
Total Current Liabilities	142,580	12,211	(996)		153,795
Long-Term Deferred Income Taxes	25,168	—	2,441	h	27,609
Other Long-Term Liabilities	23,646	155	6,680	i	30,481
Long-Term Obligations	191,929	51,572	126,147	j, k	369,648
Total Kadant Stockholders' Equity and SMH Members' Equity	356,961	21,233	(23,464)	a.iii, l	354,730
Noncontrolling interest	1,478	—	—		1,478
Total Stockholders' Equity	358,439	21,233	(23,464)		356,208
Total Liabilities and Stockholders' Equity	$ 741,762	$ 85,171	$ 110,808		$ 937,741

The accompanying notes are an integral part of these unaudited pro forma condensed combined financial statements.

KADANT INC.

PRO FORMA CONDENSED COMBINED STATEMENT OF INCOME
(Unaudited)

	Fiscal Year Ended December 30, 2017				
(In thousands, except per share amounts)	**Kadant Historical**	**SMH Historical**	**Pro Forma Adjustments**		**Pro Forma Combined**
Revenues	$ 515,033	$ 81,992	$ —		$ 597,025
Costs and Operating Expenses:					
Cost of revenues	283,886	56,099	385	m	340,019
			(351)	n	
Selling, general, and administrative expenses	159,756	14,264	73	m	174,571
			(3,531)	o	
			4,424	p	
			(67)	n	
			(348)	q	
Research and development expenses	9,563	18	—		9,581
Other income	203	200	—		403
	453,408	70,581	585		524,574
Operating Income	61,625	11,411	(585)		72,451
Interest Income	447	—	—		447
Interest Expense	(3,547)	(6,222)	6,222	s	(10,798)
			(7,251)	t	
Other Expense, Net	(872)	(460)	—		(1,332)
Income Before Provision for Income Taxes	57,653	4,729	(1,614)		60,768
Provision for Income Taxes	26,070	7	1,361	u	27,438
Net Income	31,583	4,722	(2,975)		33,330
Net Income Attributable to Noncontrolling Interest	(491)	—	—		(491)
Net Income Attributable to Kadant and SMH	$ 31,092	$ 4,722	$ (2,975)		$ 32,839
Earnings per Share Attributable to Kadant and SMH					
Basic	$ 2.83				$ 2.99
Diluted	$ 2.75				$ 2.90
Weighted Average Shares					
Basic	10,991				10,991
Diluted	11,312				11,312

The accompanying notes are an integral part of these unaudited pro forma condensed combined financial statements.

KADANT INC.

PRO FORMA CONDENSED COMBINED STATEMENT OF INCOME
(Unaudited)

(In thousands, except per share amounts)	Fiscal Nine Months Ended September 29, 2018				
	Kadant Historical	SMH Historical	Pro Forma Adjustments		Pro Forma Combined
Revenues	$ 469,851	$ 64,017	$ —		$ 533,868
Costs and Operating Expenses:					
Cost of revenues	262,515	43,029	289	m	305,570
			(263)	n	
Selling, general, and administrative expenses	133,796	11,821	55	m	146,398
			(2,649)	o	
			4,287	p	
			(50)	n	
			(207)	q	
			(655)	r	
Research and development expenses	8,049	6	—		8,055
Restructuring and other costs	1,717	142	—		1,859
	406,077	54,998	807		461,882
Operating Income	63,774	9,019	(807)		71,986
Interest Income	335	—	—		335
Interest Expense	(5,320)	(4,764)	4,764	s	(10,758)
			(5,438)	t	
Other (Expense) Income, Net	(736)	2	—		(734)
Net Income Before Provision for Income Taxes	58,053	4,257	(1,481)		60,829
Provision (Benefit) for Income Taxes	15,575	(205)	1,626	u	16,996
Net Income	42,478	4,462	(3,107)		43,833
Net Income Attributable to Noncontrolling Interest	(487)	—	—		(487)
Net Income Attributable to Kadant and SMH	$ 41,991	$ 4,462	$ (3,107)		$ 43,346
Earnings per Share Attributable to Kadant and SMH					
Basic	$ 3.79				$ 3.91
Diluted	$ 3.69				$ 3.81
Weighted Average Shares					
Basic	11,078				11,078
Diluted	11,388				11,388

The accompanying notes are an integral part of these unaudited pro forma condensed combined financial statements.

KADANT INC.

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

Note 1 - Unaudited Pro Forma Condensed Combined Balance Sheet

The unaudited pro forma condensed combined balance sheet information as of September 29, 2018 gives effect to the acquisition by Kadant of SMH as if it had taken place on September 29, 2018 and is based on the historical balance sheets of Kadant as of September 29, 2018 and SMH as of September 30, 2018.

The following pro forma adjustments are based on preliminary estimates, which may change as additional information is obtained and are as follows:

(a) Adjustments to cash were as follows:

i. Record additional borrowings of $177,719,000 to fund the acquisition consideration paid. These borrowings were financed through a revolving credit facility dated as of March 1, 2017, as amended (the "Credit Agreement"), in the aggregate principal amount of up to $400,000,000.

ii. Record cash paid to the sellers of $177,719,000, which was paid after September 29, 2018.

iii. Record cash paid of $2,231,000 for acquisition-related transaction costs, which were paid subsequent to September 29, 2018. The impact of the acquisition-related costs has been excluded from the pro forma condensed combined statement of income in the fiscal year ended December 30, 2017 as it is a non-recurring item.

iv. Record cash paid for deferred debt issuance costs of $741,000 related to the financing of the acquisition which were paid subsequent to September 29, 2018.

(b) Adjust SMH's inventory to fair value. The cost of revenues impact related to the write-up of inventory has been excluded from the pro forma condensed combined statement of income as it is a non-recurring item.

(c) Adjust SMH's property, plant, and equipment to fair value.

(d) Record deferred debt issuance costs of $741,000 incurred in connection with financing the acquisition that were paid subsequent to September 29, 2018.

(e) Eliminate SMH's historical goodwill and intangible assets.

(f) Record goodwill and intangible assets associated with the acquisition.

(g) Eliminate SMH's historical deferred rent liability for a real estate lease obligation that was revalued at the acquisition date.

(h) Record a net long-term deferred tax liability primarily related to intangible assets and property, plant, and equipment acquired, offset in part by a long-term deferred tax asset related to the above-market real estate lease obligation noted in (i) below.

(i) Record a long-term liability related to SMH's above-market real estate lease obligation, which has a remaining contractual life of 16 years. On December 30, 2018, the Company adopted Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*, which resulted in the recognition of a right of use asset and lease liability for most of its leases. Under this standard, the unfavorable above-market real estate lease obligation acquired in the acquisition of SMH was recorded at fair value as a reduction to the right of use asset in the allocation of purchase price table as of January 2, 2019 presented herein. However, these pro forma condensed combined statements present the results of Kadant and SMH prior to the adoption of ASU No. 2016-02, and as a result, the Company recorded a lease liability as a pro forma adjustment related to this above-market real estate lease in accordance with its accounting policies effective during the period presented.

(j) Eliminate debt obligations of SMH that were settled prior to the closing of the acquisition.

(k) Record additional borrowings by Kadant under the Credit Agreement to fund the acquisition consideration paid.

(l) Eliminate SMH's historical equity accounts.

Note 2 - Unaudited Pro Forma Condensed Combined Statements of Income

The unaudited pro forma condensed combined statements of income for the fiscal year ended December 30, 2017, and fiscal nine months ended September 29, 2018, give effect to the acquisition of SMH by Kadant as if it had taken place as of the beginning of 2017 and are based on the historical statements of income of Kadant for the fiscal year ended December 30, 2017 and the fiscal nine months ended September 29, 2018 and SMH for the year ended December 31, 2017 and nine months ended September 30, 2018.

The following pro forma adjustments are based on preliminary estimates, which may change as additional information is obtained:

(m) Record additional depreciation expense associated with fair value adjustments for property, plant, and equipment, which is amortized using the straight-line method over the estimated remaining useful lives of 3 to 14 years for machinery, equipment, and leasehold improvements.

(n) Record amortization of an intangible liability for an above-market real estate lease, which is amortized using the straight-line method over the remaining contractual life of the lease obligation.

(o) Eliminate SMH's historical amortization expense associated with its definite-lived intangible assets.

(p) Record amortization expense associated with the definite-lived intangible assets. The impact of the write-up of acquired backlog of $1,242,000 and $358,000 has been excluded from the pro forma condensed combined statement of income for the fiscal year ended December 30, 2017 and the fiscal nine months ended September 29, 2018, respectively, as it is a non-recurring item.

(q) Eliminate historical fees paid by SMH for management services under an agreement that terminated upon its acquisition by Kadant.

(r) Eliminate SMH's historical acquisition transaction costs directly related to its acquisition by Kadant.

(s) Eliminate SMH's historical interest expense related to debt that was settled prior to the closing of the acquisition.

(t) Record an increase to interest expense to reflect the additional borrowings of $177,719,000 to fund the acquisition of SMH. Interest expense has been calculated based on interest rates available to Kadant under the Credit Agreement. The weighted average interest rates associated with these borrowings are approximately 4.08% for both the fiscal year ended December 30, 2017 and the fiscal nine months ended September 29, 2018. A variance of 1/8% in interest rates on these borrowings would change interest expense by $222,000 in the fiscal year ended December 30, 2017 and $167,000 in the fiscal nine months ended September 29, 2018.

(u) Record the income tax effect of the pro forma adjustments and the effect of treating SMH as taxable within Kadant's consolidated U.S. group at an estimated effective tax rate of 45% in fiscal 2017 and 28% in the fiscal nine months ended September 29, 2018. The effective tax rate in fiscal 2017 excludes the impact of the Tax Cut and Jobs Act of 2017 for the remeasurement of SMH's deferred income tax assets and liabilities related to the decrease in the federal corporate income tax rate from 35% to 21% as it is a non-recurring item.