

**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 April 2, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number 1-11406

KADANT INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of Incorporation or Organization)

52-1762325
(I.R.S. Employer Identification No.)

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

01886
(Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

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

Class	Outstanding at April 29, 2016
Common Stock, \$.01 par value	10,854,322

PART 1 – FINANCIAL INFORMATION

Item 1 – Financial Statements

KADANT INC.
Condensed Consolidated Balance Sheet
(Unaudited)

Assets

(In thousands)	April 2, 2016	January 2, 2016
Current Assets:		
Cash and cash equivalents	\$ 104,517	\$ 65,530
Restricted cash (Note 1)	1,522	1,406
Accounts receivable, less allowances of \$2,262 and \$2,163 (Note 1)	62,029	64,321
Inventories (Note 1)	58,681	56,758
Unbilled contract costs and fees	2,319	6,580
Other current assets	15,518	10,525
Total Current Assets	244,586	205,120
Property, Plant, and Equipment, at Cost	119,270	118,014
Less: accumulated depreciation and amortization	77,145	75,721
	42,125	42,293
Other Assets	11,081	11,002
Intangible Assets, Net (Note 1)	38,147	38,032
Goodwill	121,681	119,051
Total Assets	\$ 457,620	\$ 415,498

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

KADANT INC.
Condensed Consolidated Balance Sheet (continued)
(Unaudited)

Liabilities and Stockholders' Equity

(In thousands, except share amounts)	April 2, 2016	January 2, 2016
Current Liabilities:		
Short-term obligations (Note 5)	\$ 5,125	\$ 5,250
Accounts payable	23,796	24,418
Accrued payroll and employee benefits	14,492	19,583
Customer deposits	19,085	20,123
Accrued income taxes	2,091	5,333
Other current liabilities	19,590	21,921
Total Current Liabilities	84,179	96,628
Long-Term Deferred Income Taxes	11,680	8,992
Other Long-Term Liabilities	17,112	15,933
Long-Term Obligations (Note 5)	67,046	26,000
Commitments and Contingencies (Note 12)	—	—
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	97,897	100,536
Retained earnings	302,071	297,258
Treasury stock at cost, 3,769,837 and 3,850,779 shares	(92,376)	(94,359)
Accumulated other comprehensive items (Note 8)	(31,645)	(36,972)
Total Kadant Stockholders' Equity	276,093	266,609
Noncontrolling interest	1,510	1,336
Total Stockholders' Equity	277,603	267,945
Total Liabilities and Stockholders' Equity	\$ 457,620	\$ 415,498

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	
	April 2, 2016	April 4, 2015
Revenues	\$ 96,538	\$ 92,251
Costs and Operating Expenses:		
Cost of revenues	52,562	47,914
Selling, general, and administrative expenses	32,496	32,222
Research and development expenses	1,704	1,660
Restructuring costs and other income (Note 2)	(317)	84
	86,445	81,880
Operating Income	10,093	10,371
Interest Income	55	53
Interest Expense	(269)	(231)
Income from Continuing Operations Before Provision for Income Taxes	9,879	10,193
Provision for Income Taxes (Note 4)	2,888	3,268
Income from Continuing Operations	6,991	6,925
Income from Discontinued Operation (net of income tax provision of \$41)	—	65
Net Income	6,991	6,990
Net Income Attributable to Noncontrolling Interest	(115)	(93)
Net Income Attributable to Kadant	\$ 6,876	\$ 6,897
Amounts Attributable to Kadant:		
Income from Continuing Operations	\$ 6,876	\$ 6,832
Income from Discontinued Operation	—	65
Net Income Attributable to Kadant	\$ 6,876	\$ 6,897
Earnings per Share from Continuing Operations Attributable to Kadant (Note 3):		
Basic	\$ 0.64	\$ 0.63
Diluted	\$ 0.62	\$ 0.62
Earnings per Share Attributable to Kadant (Note 3):		
Basic	\$ 0.64	\$ 0.63
Diluted	\$ 0.62	\$ 0.62
Weighted Average Shares (Note 3):		
Basic	10,793	10,892
Diluted	11,018	11,086
Cash Dividends Declared per Common Share	\$ 0.19	\$ 0.17

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

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

(In thousands)	Three Months Ended	
	April 2, 2016	April 4, 2015
Net Income	\$ 6,991	\$ 6,990
Other Comprehensive Items:		
Foreign currency translation adjustment	5,930	(12,102)
Pension and other post-retirement liability adjustments (net of tax benefit of \$236 in 2016 and tax provision of \$92 in 2015)	(418)	173
Deferred loss on hedging instruments (net of tax benefit of \$72 in 2016 and tax provision of \$17 in 2015)	(126)	(508)
Other Comprehensive Items	5,386	(12,437)
Comprehensive Income (Loss)	12,377	(5,447)
Comprehensive (Income) Loss Attributable to Noncontrolling Interest	(174)	39
Comprehensive Income (Loss) Attributable to Kadant	\$ 12,203	\$ (5,408)

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

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

(In thousands)	Three Months Ended	
	April 2, 2016	April 4, 2015
Operating Activities:		
Net income attributable to Kadant	\$ 6,876	\$ 6,897
Net income attributable to noncontrolling interest	115	93
Income from discontinued operation	—	(65)
Income from continuing operations	6,991	6,925
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	2,564	2,910
Stock-based compensation expense	1,323	1,588
Tax benefits from stock-based compensation awards	—	(687)
Provision for losses on accounts receivable	76	185
Gain on the sale of property, plant, and equipment	(346)	—
Other items, net	781	(836)
Contributions to pension plan	(270)	(270)
Changes in current assets and liabilities:		
Accounts receivable	3,259	(5,247)
Unbilled contract costs and fees	4,313	1,817
Inventories	(604)	(7,660)
Other current assets	(1,808)	(1,908)
Accounts payable	(1,234)	375
Other current liabilities	(9,527)	589
Net cash provided by (used in) continuing operations	5,518	(2,219)
Net cash used in discontinued operation	—	(41)
Net cash provided by (used in) operating activities	5,518	(2,260)
Investing Activities:		
Issuance of note receivable	(2,813)	—
Purchases of property, plant, and equipment	(524)	(1,216)
Proceeds from sale of property, plant, and equipment	385	5
Net cash used in continuing operations for investing activities	(2,952)	(1,211)
Financing Activities:		
Proceeds from issuance of long-term obligations	41,046	10,000
Repayments of short-and long-term obligations	(125)	(5,111)
Tax withholding payments related to stock-based compensation	(1,980)	(2,304)
Dividends paid	(1,831)	(1,630)
Payment of contingent consideration	(1,091)	—
Tax benefits from stock-based compensation awards	—	687
Proceeds from issuance of company common stock	—	148
Change in restricted cash	(58)	—
Net cash provided by continuing operations for financing activities	35,961	1,790
Exchange Rate Effect on Cash and Cash Equivalents from Continuing Operations	460	(857)
Increase (Decrease) in Cash and Cash Equivalents from Continuing Operations	38,987	(2,538)
Cash and Cash Equivalents at Beginning of Period	65,530	45,378
Cash and Cash Equivalents at End of Period	\$ 104,517	\$ 42,840

See Note 1 for supplemental cash flow information.
The accompanying notes are an integral part of these condensed consolidated financial statements.

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

(In thousands, except share amounts)	Common Stock		Capital in Excess of Par Value	Retained Earnings	Treasury Stock		Accumulated Other Comprehensive Items	Noncontrolling Interest	Total Stockholders' Equity
	Shares	Amount			Shares	Amount			
Balance at January 3, 2015	14,624,159	\$ 146	\$ 98,769	\$270,249	3,760,019	\$(87,727)	\$ (17,146)	\$ 1,168	\$ 265,459
Net income	—	—	—	6,897	—	—	—	93	6,990
Dividends declared	—	—	—	(1,864)	—	—	—	—	(1,864)
Activity under stock plans	—	—	(2,956)	—	(102,346)	2,388	—	—	(568)
Tax benefits related to employees' and directors' stock plans	—	—	687	—	—	—	—	—	687
Other comprehensive items	—	—	—	—	—	—	(12,305)	(132)	(12,437)
Balance at April 4, 2015	<u>14,624,159</u>	<u>\$ 146</u>	<u>\$ 96,500</u>	<u>\$275,282</u>	<u>3,657,673</u>	<u>\$(85,339)</u>	<u>\$ (29,451)</u>	<u>\$ 1,129</u>	<u>\$ 258,267</u>
Balance at January 2, 2016	14,624,159	\$ 146	\$ 100,536	\$297,258	3,850,779	\$(94,359)	\$ (36,972)	\$ 1,336	\$ 267,945
Net income	—	—	—	6,876	—	—	—	115	6,991
Dividends declared	—	—	—	(2,063)	—	—	—	—	(2,063)
Activity under stock plans	—	—	(2,639)	—	(80,942)	1,983	—	—	(656)
Other comprehensive items	—	—	—	—	—	—	5,327	59	5,386
Balance at April 2, 2016	<u>14,624,159</u>	<u>\$ 146</u>	<u>\$ 97,897</u>	<u>\$302,071</u>	<u>3,769,837</u>	<u>\$(92,376)</u>	<u>\$ (31,645)</u>	<u>\$ 1,510</u>	<u>\$ 277,603</u>

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. (collectively, "we," "Kadant," "the Company," or "the Registrant") was incorporated in Delaware in November 1991 and currently trades on the New York Stock Exchange under the ticker symbol "KAI."

The Company and its subsidiaries' continuing operations include two reportable operating segments, Papermaking Systems and Wood Processing Systems, and a separate product line, Fiber-based Products.

Through its Papermaking Systems segment, the Company develops, manufactures, and markets a range of equipment and products primarily for the global papermaking, paper recycling, and other process industries. The Company's principal products in this segment include custom-engineered stock-preparation systems and equipment for the preparation of wastepaper for conversion into recycled paper; fluid-handling systems used primarily in the dryer section of the papermaking process and during the production of corrugated boxboard, metals, plastics, rubber, textiles, chemicals, and food; doctoring systems and equipment and related consumables important to the efficient operation of paper machines; and cleaning and filtration systems essential for draining, purifying, and recycling process water and cleaning paper machine fabrics and rolls.

Through its Wood Processing Systems segment, the Company designs and manufactures stranders and related equipment used in the production of oriented strand board (OSB), an engineered wood panel product used primarily in home construction. This segment also supplies debarking and wood chipping equipment used in the forest products and the pulp and paper industries.

Through its Fiber-based Products business, the Company manufactures and sells granules derived from papermaking byproducts primarily for use as agricultural carriers and for home lawn and garden applications, as well as for oil and grease absorption.

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 April 2, 2016 and its results of operations, comprehensive income (loss), cash flows, and stockholders' equity for the three-month periods ended April 2, 2016 and April 4, 2015. 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, 2016 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, 2016. The condensed consolidated financial statements and related notes are presented as permitted by the Securities and Exchange Commission (SEC) rules and regulations 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, 2016, filed with the SEC.

Financial Statement Presentation

Certain reclassifications have been made to prior periods to conform with current reporting. As a result of the adoption of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-09, tax withholding payments made related to stock-based compensation awards have been reclassified from other current liabilities within operating activities on the condensed consolidated statement of cash flows and presented separately within financing activities. In addition, on the condensed consolidated statement of cash flows, the tax benefits from stock-based compensation awards within operating activities for the three-month period ended April 4, 2015 have been reclassified from other items, net, and are now presented separately.

Critical Accounting Policies

Critical accounting policies are defined as those that entail significant judgments and estimates, and could potentially result in materially different results under different assumptions and conditions. The Company believes that the most critical accounting policies upon which its financial position depends, and which involve the most complex or subjective decisions or assessments, concern revenue recognition and accounts receivable, warranty obligations, income taxes, the valuation of

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

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

goodwill and intangible assets, inventories and pension obligations. A discussion of the application of these and other accounting policies is included in Notes 1 and 3 to the consolidated financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended January 2, 2016.

Use of Estimates

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 revenues 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.

Supplemental Cash Flow Information

(In thousands)	Three Months Ended	
	April 2, 2016	April 4, 2015
Non-Cash Financing Activities:		
Issuance of Company Common Stock	\$ 2,854	\$ 2,633
Dividends Declared but Unpaid	\$ 2,063	\$ 1,864

Restricted Cash

As of April 2, 2016 and January 2, 2016, the Company had restricted cash of \$1,522,000 and \$1,406,000, respectively. This cash serves as collateral for bank guarantees primarily associated with providing assurance to customers that the Company will fulfill certain customer obligations entered into in the normal course of business. All of the bank guarantees will expire by the end of 2017.

Banker's Acceptance Drafts

The Company's Chinese subsidiaries may receive banker's acceptance drafts from customers as payment for outstanding accounts receivable. The banker's acceptance drafts are non-interest bearing obligations of the issuing bank and mature within six months of the origination date. The Company has the ability to 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 \$7,853,000 and \$8,314,000 at April 2, 2016 and January 2, 2016, respectively, 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 accounts payable prior to maturity, or obtains cash payment on the scheduled maturity date.

Inventories

The components of inventories are as follows:

(In thousands)	April 2, 2016	January 2, 2016
Raw Materials and Supplies	\$ 22,415	\$ 22,324
Work in Process	11,769	13,819
Finished Goods	24,497	20,615
	\$ 58,681	\$ 56,758

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

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Intangible Assets, Net

Acquired intangible assets are as follows:

(In thousands)	April 2, 2016	January 2, 2016
Indefinite-Lived Intangible Asset	\$ 8,100	\$ 8,100
Definite-Lived Intangible Assets, Gross	\$ 77,052	\$ 77,052
Accumulated Amortization	(42,030)	(40,908)
Currency Translation	(4,975)	(6,212)
Definite-Lived Intangible Assets, Net	\$ 30,047	\$ 29,932
Total Intangible Assets, Net	\$ 38,147	\$ 38,032

Warranty Obligations

The Company provides for the estimated cost of product warranties at the time of sale based on the actual historical occurrence rates and repair costs, as well as knowledge of any specific warranty problems that indicate that projected warranty costs may vary from historical patterns. The Company typically negotiates the terms regarding warranty coverage and length of warranty depending on the products and applications. While the Company engages in extensive product quality programs and processes, the Company's warranty obligation is affected by product failure rates, repair costs, service delivery costs incurred in correcting a product failure, and supplier warranties on parts delivered to the Company. Should actual product failure rates, repair costs, service delivery costs, or supplier warranties on parts differ from the Company's estimates, revisions to the estimated warranty liability would be required.

The changes in the carrying amount of accrued warranty costs included in other current liabilities in the accompanying condensed consolidated balance sheet are as follows:

(In thousands)	Three Months Ended	
	April 2, 2016	April 4, 2015
Balance at beginning of period	\$ 3,670	\$ 3,875
Provision charged to income	560	408
Usage	(526)	(543)
Currency translation	81	(192)
Balance at end of period	\$ 3,785	\$ 3,548

Recent Accounting Pronouncements

Revenue from Contracts with Customers (Topic 606) Section A-Summary and Amendments That Create Revenue from Contracts with Customers (Topic 606) and Other Assets and Deferred Costs-Contracts with Customers (Subtopic 340-40). In May 2014, the FASB issued ASU No. 2014-09, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The new guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. The ASU will replace most existing revenue recognition guidance in GAAP when it becomes effective. In March 2016, the FASB issued ASU No. 2016-08, which further clarifies the guidance on the principal versus agent considerations within ASU No. 2014-09. In April 2016, the FASB issued ASU No. 2016-10 to expand the guidance on identifying performance obligations and licensing within ASU 2014-09. These new ASUs are effective for the Company beginning in fiscal 2018. Early adoption is permitted in fiscal 2017. The guidance permits the use of either the retrospective or cumulative effect transition method. The Company is currently evaluating the effect that these ASUs will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

Compensation-Stock Compensation (Topic 718) Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. In June 2014, the FASB issued ASU

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

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

No. 2014-12, which clarifies the proper method of accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. Under the new guidance, a performance target that affects vesting and could be achieved after completion of the service period should be treated as a performance condition under FASB Accounting Standards Codification (ASC) 718 and, as a result, should not be included in the estimation of the grant-date fair value of the award. An entity should recognize compensation cost for the award when it becomes probable that the performance target will be achieved. In the event that an entity determines that it is probable that a performance target will be achieved before the end of the service period, the compensation cost of the award should be recognized prospectively over the remaining service period. The Company adopted this guidance at the beginning of fiscal 2016. The adoption of this ASU did not have an impact on the Company's condensed consolidated financial statements.

Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. In April 2015, the FASB issued ASU No. 2015-03, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. In addition, in June 2015, the FASB issued ASU No. 2015-15, which allows an entity to defer the requirements of ASU No. 2015-03 on deferred issuance costs related to line-of-credit arrangements. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in these ASUs. These new disclosure items are effective for the Company beginning in fiscal 2016. The Company adopted these ASUs at the beginning of fiscal 2016. Adoption of these ASUs did not have an impact on the Company's condensed consolidated financial statements.

Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). In May 2015, the FASB issued ASU No. 2015-07, which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. This ASU also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. The Company adopted the disclosure requirements in this guidance at the beginning of fiscal 2016. As this ASU is disclosure-related only, its adoption did not have an effect on the Company's condensed consolidated financial statements.

Inventory (Topic 330), Simplifying the Measurement of Inventory. In July 2015, the FASB issued ASU No. 2015-11, which requires that an entity measure inventory within the scope of this ASU at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Substantial and unusual losses that result from subsequent measurement of inventory should be disclosed in the financial statements. This new guidance is effective for the Company beginning in fiscal 2017. Early adoption is permitted. The Company is currently evaluating the effect that this ASU will have on its condensed consolidated financial statements.

Business Combinations (Topic 805), Simplifying the Accounting for Measurement-Period Adjustments. In September 2015, the FASB issued ASU No. 2015-16, which requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The acquirer is required to record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. In addition, an entity is required to present, separately on the face of the income statement or through disclosure in the notes, the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. The Company adopted this guidance at the beginning of fiscal 2016. Adoption of this ASU did not have an impact on the Company's condensed consolidated financial statements.

Leases (Topic 842). In February 2016, the FASB issued ASU No. 2016-02, which requires a lessee to recognize a right-of-use asset and a lease liability for operating leases, initially measured at the present value of the future lease payments, in its balance sheet. This ASU also requires a lessee to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term, generally on a straight-line basis. This new guidance is effective for the Company in fiscal 2019. Early adoption is permitted. The Company is currently evaluating the effects that the adoption of this ASU will have on its condensed consolidated financial statements.

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

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. In March 2016, the FASB issued ASU No. 2016-09, which simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification in the statement of cash flows. The Company early adopted this ASU at the beginning of fiscal 2016. This ASU requires that excess income tax benefits and tax deficiencies related to stock-based compensation arrangements be recognized as discrete items within the provision for income taxes instead of additional paid in capital in the reporting period in which they occur. As a result of the adoption of this ASU, the Company recognized an income tax benefit of \$205,000, or \$0.02 per diluted share, in the Company's condensed consolidated statement of income in the first quarter of 2016. The Company prospectively adopted the requirement to classify the excess tax benefits from stock-compensation awards within operating activities in the condensed consolidated statement of cash flows in the first quarter of 2016. Prior period amounts were not restated. The Company also adopted the guidance in this ASU that requires that taxes paid related to the withholding of common stock upon the vesting of employee stock awards be presented separately within financing activities in the condensed consolidated statement of cash flows. The Company has retrospectively restated the 2015 period to reclassify the comparative amount, which was previously presented in other current liabilities within operating activities. There were no other material effects from adoption of this ASU on the Company's condensed consolidated financial statements.

2. Restructuring Costs and Other Income

Other Income

In the first quarter of 2016, other income consisted of a pre-tax gain of \$317,000 from the sale of real estate in Sweden for cash proceeds of \$368,000.

Restructuring Costs

In the first quarter of 2015, the Company's Papermaking Systems segment recorded restructuring costs related to its 2015 restructuring plan of \$84,000 for severance costs associated with the reduction of five employees in Canada and Sweden. These actions were taken to streamline the Company's operations in those locations.

3. Earnings per Share

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

(In thousands, except per share amounts)	Three Months Ended	
	April 2, 2016	April 4, 2015
Amounts Attributable to Kadant:		
Income from Continuing Operations	\$ 6,876	\$ 6,832
Income from Discontinued Operation	—	65
Net Income	\$ 6,876	\$ 6,897
Basic Weighted Average Shares	10,793	10,892
Effect of Stock Options, Restricted Stock Units and Employee Stock Purchase Plan	225	194
Diluted Weighted Average Shares	11,018	11,086
Basic Earnings per Share:		
Continuing Operations	\$ 0.64	\$ 0.63
Discontinued Operation	\$ —	\$ 0.01
Net Income per Basic Share	\$ 0.64	\$ 0.63
Diluted Earnings per Share:		
Continuing Operations	\$ 0.62	\$ 0.62
Discontinued Operation	\$ —	\$ 0.01
Net Income per Diluted Share	\$ 0.62	\$ 0.62

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

3. Earnings per Share (continued)

Unvested restricted stock units (RSUs) equivalent to approximately 147,000 and 46,000 shares of common stock for the first quarters of 2016 and 2015, respectively, were not included in the computation of diluted EPS because either the effect of their inclusion would have been anti-dilutive, or for unvested performance-based RSUs, the performance conditions had not been met as of the end of the reporting period.

4. Provision for Income Taxes

The provision for income taxes was \$2,888,000 and \$3,268,000 in the first quarters of 2016 and 2015, respectively, and represented 29% and 32% of pre-tax income. The effective tax rate of 29% in the first quarter of 2016 was lower than the Company's statutory tax rate primarily due to the distribution of the Company's worldwide earnings and the adoption of ASU No. 2016-09 that resulted in a favorable adjustment for the net excess income tax benefits from stock-based compensation arrangements. These items were offset in part by an increase in tax related to non-deductible expenses and state taxes. The effective tax rate of 32% in the first quarter of 2015 was lower than the Company's statutory tax rate primarily due to the distribution of the Company's worldwide earnings, which was offset in part by an increase in state taxes, tax expense related to an increase in non-deductible expenses, and the U.S. tax cost of foreign operations.

5. Short- and Long-Term Obligations

Short- and long-term obligations are as follows:

(In thousands)	April 2, 2016	January 2, 2016
Revolving Credit Facility, due 2018	\$ 67,046	\$ 26,000
Commercial Real Estate Loan, due 2016	5,125	5,250
Total Short- and Long-Term Obligations	72,171	31,250
Less: Short-Term Obligations	(5,125)	(5,250)
Long-Term Obligations	\$ 67,046	\$ 26,000

The weighted average interest rate for the Company's short-and long-term obligations was 1.72% as of April 2, 2016.

The Company entered into a five-year unsecured revolving credit facility (2012 Credit Agreement) in the aggregate principal amount of up to \$100,000,000 on August 3, 2012 and amended it on November 1, 2013 and March 29, 2016. The 2012 Credit Agreement also includes an uncommitted unsecured incremental borrowing facility of up to an additional \$50,000,000. The principal on any borrowings made under the 2012 Credit Agreement is due on November 1, 2018. Interest on any loans outstanding under the 2012 Credit Agreement accrues and is payable quarterly in arrears at one of the following rates selected by the Company: (i) the highest of (a) the federal funds rate plus 0.50% plus an applicable margin of 0% to 1%, (b) the prime rate, as defined, plus an applicable margin of 0% to 1% and (c) the Eurocurrency rate, as defined, plus 0.50% plus an applicable margin of 0% to 1% or (ii) the Eurocurrency rate, as defined, plus an applicable margin of 1% to 2%. The applicable margin is determined based upon the ratio of the Company's total debt to earnings before interest, taxes, depreciation, and amortization (EBITDA), as defined in the 2012 Credit Agreement. For this purpose, total debt is defined as total debt less up to \$25,000,000 of unrestricted U.S. cash.

The obligations of the Company under the 2012 Credit Agreement may be accelerated upon the occurrence of an event of default under the 2012 Credit Agreement, which includes customary events of default including without limitation payment defaults, defaults in the performance of affirmative and negative covenants, the inaccuracy of representations or warranties, bankruptcy- and insolvency-related defaults, defaults relating to such matters as the Employment Retirement Income Security Act, unsatisfied judgments, the failure to pay certain indebtedness, and a change of control default. In addition, the 2012 Credit Agreement contains negative covenants applicable to the Company and its subsidiaries, including financial covenants requiring the Company to comply with a maximum consolidated leverage ratio of 3.5 to 1, a minimum consolidated interest coverage ratio of 3 to 1, and restrictions on liens, indebtedness, fundamental changes, dispositions of property, making certain restricted payments (including dividends and stock repurchases), investments, transactions with affiliates, sale and leaseback transactions, swap agreements, changing its fiscal year, arrangements affecting subsidiary distributions, entering into new lines of business,

KADANT INC.
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5. Short- and Long-Term Obligations (continued)

and certain actions related to the discontinued operation. As of April 2, 2016, the Company was in compliance with these covenants.

Loans under the 2012 Credit Agreement are guaranteed by certain domestic subsidiaries of the Company pursuant to a Guarantee Agreement, effective August 3, 2012.

The Company borrowed \$41,046,000 under the 2012 Credit Agreement in the first quarter of 2016, of which \$29,866,000 was a euro-denominated borrowing used to fund the acquisition of RT Holding GmbH, the parent corporation of a group of companies known as the PAALGROUP (PAAL), which occurred at the beginning of the second quarter of 2016. As of April 2, 2016, the outstanding balance under the 2012 Credit Agreement was \$67,046,000. As of April 2, 2016, the Company had \$32,151,000 of borrowing capacity available under the committed portion of its 2012 Credit Agreement. The amount the Company is able to borrow under the 2012 Credit Agreement is the total borrowing capacity of \$100,000,000 less any outstanding borrowings, letters of credit and multi-currency borrowings issued under the 2012 Credit Agreement.

6. Stock-Based Compensation

The Company recognized stock-based compensation expense of \$1,323,000 and \$1,588,000 in the first quarters of 2016 and 2015, respectively, within selling, general, and administrative (SG&A) expenses in the accompanying condensed consolidated statement of income. The Company recognizes compensation cost 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 trading 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 net of forfeitures. For performance-based RSUs, compensation expense is recognized ratably over the requisite service period for each separately-vesting portion of the award net of forfeitures and remeasured at each reporting period until the total number of RSUs to be issued is known. Unrecognized compensation expense related to stock-based compensation totaled approximately \$7,830,000 at April 2, 2016, and will be recognized over a weighted average period of 2.0 years.

On March 8, 2016, the Company granted to its executive officers performance-based RSUs, which represented, in aggregate, the right to receive 53,811 shares (the target RSU amount), subject to adjustment, with an aggregate grant date fair value of \$2,173,000. The RSUs are subject to adjustment based on the achievement of the performance measure selected for the 2016 fiscal year, which is a specified target for adjusted EBITDA generated from continuing operations for the 2016 fiscal year. The RSUs are adjusted by comparing the actual adjusted EBITDA for the performance period to the target adjusted EBITDA. Actual adjusted EBITDA between 50% and 100% of the target adjusted EBITDA results in an adjustment of 50% to 100% of the RSU amount. Actual adjusted EBITDA between 100% and 115% of the target adjusted EBITDA results in an adjustment using a straight-line linear scale between 100% and 150% of the RSU amount. If actual adjusted EBITDA is below 50% of the target adjusted EBITDA for the 2016 fiscal year, all performance-based RSUs will be forfeited. In the first quarter of 2016, the Company recognized compensation expense based on the probable number of performance-based RSUs expected to vest, which was 100% of the target RSU amount. Following the adjustment, the performance-based RSUs will be subject to additional time-based vesting, and will vest in three equal annual installments on March 10 of 2017, 2018, and 2019, provided that the executive officer is employed by the Company on the applicable vesting dates. On March 8, 2016, the Company also granted time-based RSUs representing 58,438 shares to its executive officers and employees with an aggregate grant date fair value of \$2,359,000. These time-based RSUs generally vest in three equal annual installments on March 10 of 2017, 2018, and 2019, provided the employee remains employed by the Company on the applicable vesting dates.

On March 9, 2016, the Company granted 20,000 RSUs in the aggregate to its non-employee directors with a grant date fair value of \$812,000. The RSUs will vest ratably on the last day of each fiscal quarter of 2016.

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

7. Employee Benefit Plans

The Company sponsors a noncontributory defined benefit retirement plan for the benefit of eligible employees at its Kadant Solutions division and its corporate office (included in the table below under "Pension Benefits"). The Company also sponsors a restoration plan for the benefit of certain executive officers who also participate in the noncontributory defined benefit retirement plan (included in the table below under "Other Benefits"). In addition, employees at certain of the Company's subsidiaries participate in defined benefit retirement and post-retirement welfare benefit plans (included in the table below under "Other Benefits").

The components of net periodic benefit cost for the pension benefits and other benefits plans are as follows:

(In thousands)	Three Months Ended April 2, 2016		Three Months Ended April 4, 2015	
	Pension Benefits	Other Benefits	Pension Benefits	Other Benefits
Components of Net Periodic Benefit Cost:				
Service cost	\$ 181	\$ 58	\$ 211	\$ 57
Interest cost	318	64	307	65
Expected return on plan assets	(322)	(7)	(356)	(11)
Recognized net actuarial loss	124	22	127	17
Amortization of prior service cost	14	24	14	22
Settlement loss	—	114	—	—
Net periodic benefit cost	\$ 315	\$ 275	\$ 303	\$ 150

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

Discount rate	4.22%	4.07%	3.87%	3.76%
Expected long-term return on plan assets	5.00%	—	5.25%	—
Rate of compensation increase	3.00%	3.01%	3.00%	2.99%

The Company made cash contributions of \$270,000 to its Kadant Solutions division's noncontributory defined benefit retirement plan in the first three months of 2016 and expects to make cash contributions of \$810,000 over the remainder of 2016. For the remaining pension and post-retirement welfare benefits plans, no cash contributions other than to fund current benefit payments are expected in 2016.

8. Accumulated Other Comprehensive Items

Comprehensive income (loss) 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, including foreign currency translation adjustments, deferred losses and unrecognized prior service cost associated with pension and other post-retirement plans, and deferred losses on hedging instruments.

KADANT INC.
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8. Accumulated Other Comprehensive Items (continued)

Changes in each component of accumulated other comprehensive items (AOCI), net of tax, in the accompanying condensed consolidated balance sheet are as follows:

(In thousands)	Foreign Currency Translation Adjustment	Unrecognized Prior Service Cost	Deferred Loss on Pension and Other Post- Retirement Plans	Deferred Loss on Hedging Instruments	Accumulated Other Comprehensive Items
Balance at January 2, 2016	\$ (27,932)	\$ (489)	\$ (8,322)	\$ (229)	\$ (36,972)
Other comprehensive income (loss) before reclassifications	5,871	(2)	(610)	(239)	5,020
Reclassifications from AOCI	—	24	170	113	307
Net current period other comprehensive income (loss)	5,871	22	(440)	(126)	5,327
Balance at April 2, 2016	<u>\$ (22,061)</u>	<u>\$ (467)</u>	<u>\$ (8,762)</u>	<u>\$ (355)</u>	<u>\$ (31,645)</u>
Balance at January 3, 2015	\$ (7,371)	\$ (589)	\$ (8,394)	\$ (792)	\$ (17,146)
Other comprehensive (loss) income before reclassifications	(11,970)	4	52	568	(11,346)
Reclassifications from AOCI	—	23	94	(1,076)	(959)
Net current period other comprehensive (loss) income	(11,970)	27	146	(508)	(12,305)
Balance at April 4, 2015	<u>\$ (19,341)</u>	<u>\$ (562)</u>	<u>\$ (8,248)</u>	<u>\$ (1,300)</u>	<u>\$ (29,451)</u>

Amounts reclassified out of AOCI are as follows:

(In thousands)	Three Months Ended		Statement of Income
	April 2, 2016	April 4, 2015	Line Item
Pension and Other Post-Retirement Plans: (1)			
Amortization of prior service costs	\$ (38)	\$ (36)	SG&A expenses
Amortization of actuarial losses	(260)	(144)	SG&A expenses
Total expense before income taxes	(298)	(180)	
Income tax benefit	104	63	Provision for income taxes
	<u>(194)</u>	<u>(117)</u>	
Cash Flow Hedges: (2)			
Interest rate swap agreements	(89)	(104)	Interest expense
Forward currency-exchange contracts	(61)	—	Revenues
Forward currency-exchange contracts	(23)	—	Cost of Revenues
Forward currency-exchange contracts	—	1,318	SG&A expenses
Total (expense) income before income taxes	(173)	1,214	
Income tax benefit (provision)	60	(138)	Provision for income taxes
	<u>(113)</u>	<u>1,076</u>	
Total Reclassifications	<u>\$ (307)</u>	<u>\$ 959</u>	

(1) Included in the computation of net periodic pension costs. See Note 7 for additional information.

(2) See Note 9 for additional information.

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9. Derivatives

The Company uses derivative instruments primarily to reduce its exposure to changes in currency exchange rates and interest rates. When the Company enters into a derivative contract, the Company makes a determination as to whether the transaction is deemed to be a hedge for accounting purposes. For a contract deemed to be a hedge, the Company formally

documents the relationship between the derivative instrument and the risk being hedged. In this documentation, the Company specifically identifies the asset, liability, forecasted transaction, cash flow, or net investment that has been designated as the hedged item, and evaluates whether the derivative instrument is expected to reduce the risks associated with the hedged item. To the extent these criteria are not met, the Company does not use hedge accounting for the derivative. The changes in the fair value of a derivative not deemed to be a hedge are recorded currently in earnings. The Company does not hold or engage in transactions involving derivative instruments for purposes other than risk management.

ASC 815, "Derivatives and Hedging," requires that all derivatives be recognized on the balance sheet at fair value. For derivatives designated as cash flow hedges, the related gains or losses on these contracts are deferred as a component of accumulated other comprehensive items. These deferred gains and losses are recognized in the period in which the underlying anticipated transaction occurs. For derivatives designated as fair value hedges, the unrealized gains and losses resulting from the impact of currency exchange rate movements are recognized in earnings in the period in which the exchange rates change and offset the currency gains and losses on the underlying exposures being hedged. The Company performs an evaluation of the effectiveness of the hedge both at inception and on an ongoing basis. The ineffective portion of a hedge, if any, and changes in the fair value of a derivative not deemed to be a hedge are recorded in the condensed consolidated statement of income.

Interest Rate Swaps

The Company entered into interest rate swap agreements in 2015 and 2006 and has designated these agreements as cash flow hedges. On January 16, 2015, the Company entered into a swap agreement (2015 Swap Agreement) to hedge its exposure to movements in the three-month London Inter-Bank Offered Rate (LIBOR) rate on future outstanding debt. The 2015 Swap Agreement expires on March 27, 2020 and has a \$10,000,000 notional value. Under the 2015 Swap Agreement, on a quarterly basis, the Company receives a three-month LIBOR rate and pays a fixed rate of interest of 1.50% plus an applicable margin. The fair value of the 2015 Swap Agreement as of April 2, 2016 is included in other long-term liabilities, with an offset to accumulated other comprehensive items (net of tax) in the accompanying condensed consolidated balance sheet.

The Company entered into a swap agreement in 2006 (the 2006 Swap Agreement) to convert a portion of the Company's outstanding debt from a floating to a fixed rate of interest. The swap agreement has the same terms and quarterly payment dates as the corresponding debt, and reduces proportionately in line with the amortization of the debt. Under the 2006 Swap Agreement, the Company receives a three-month LIBOR rate and pays a fixed rate of interest of 5.63% plus an applicable margin. The fair value of the 2006 Swap Agreement as of April 2, 2016 is included in other current liabilities, with an offset to accumulated other comprehensive items (net of tax) in the accompanying condensed consolidated balance sheet. The 2006 Swap Agreement expired in May 2016.

The Company has structured the interest rate swap agreements to be 100% effective and as a result, there is no current impact to earnings resulting from hedge ineffectiveness. Management believes that any credit risk associated with the swap agreements is remote based on the Company's financial position and the creditworthiness of the financial institution issuing the swap agreements.

The counterparty to the swap agreements could demand an early termination of the swap agreements if the Company is in default under the 2012 Credit Agreement, or any agreement that amends or replaces the 2012 Credit Agreement in which the counterparty is a member, and the Company is unable to cure the default. An event of default under the 2012 Credit Agreement includes customary events of default and failure to comply with financial covenants, including a maximum consolidated leverage ratio of 3.5 to 1, and a minimum consolidated interest coverage ratio of 3 to 1. As of April 2, 2016, the Company was in compliance with these covenants. The unrealized loss associated with the swap agreements was \$189,000 as of April 2, 2016, which represents the estimated amount that the Company would pay to the counterparty in the event of an early termination.

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9. Derivatives (continued)

Forward Currency-Exchange Contracts

The Company uses forward currency-exchange contracts primarily to hedge exposures resulting from fluctuations in currency exchange rates. Such exposures result primarily from portions of the Company's operations and assets and liabilities that are denominated in currencies other than the functional currencies of the businesses conducting the operations or holding the assets and liabilities. The Company typically manages its level of exposure to the risk of currency-exchange fluctuations by hedging a portion of its currency exposures anticipated over the ensuing 12-month period, using forward currency-exchange contracts that have maturities of 12 months or less.

Forward currency-exchange contracts that hedge forecasted accounts receivable or accounts payable are designated as cash flow hedges. The fair values for these instruments are included in other current assets for unrecognized gains and in other current liabilities for unrecognized losses, with an offset in accumulated other comprehensive items (net of tax). For forward currency-exchange contracts that are designated as fair value hedges, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item are recognized currently in earnings. The fair values of forward currency-exchange contracts that are not designated as hedges are recorded currently in earnings.

The Company recognized a loss of \$211,000 in the first quarter of 2016 and a gain of \$1,000 in the first quarter of 2015 included in SG&A expenses, associated with forward currency-exchange contracts that were not designated as hedges. Management believes that any credit risk associated with forward currency-exchange contracts is remote based on the Company's financial position and the creditworthiness of the financial institutions issuing the contracts.

The following table summarizes the fair value of the Company's derivative instruments designated and not designated as hedging instruments, the notional values of the associated derivative contracts, and the location of these instruments in the condensed consolidated balance sheet:

(In thousands)	Balance Sheet Location	April 2, 2016		January 2, 2016	
		Asset (Liability) (a)	Notional Amount (b)	Asset (Liability) (a)	Notional Amount
Derivatives Designated as Hedging Instruments:					
Derivatives in an Asset Position:					
Forward currency-exchange contracts	Other Current Assets	\$ 69	\$ 1,829	\$ —	\$ —
Interest rate swap agreement	Other Long-Term Assets	—	—	38	10,000
Derivatives in a Liability Position:					
Forward currency-exchange contracts	Other Current Liabilities	\$ (235)	\$ 3,529	\$ (101)	\$ 6,525
Interest rate swap agreement	Other Current Liabilities	\$ (25)	\$ 5,125	\$ (91)	\$ 5,250
Interest rate swap agreement	Other Long-Term Liabilities	\$ (164)	\$ 10,000	\$ —	\$ —
Derivatives Not Designated as Hedging Instruments:					
Derivatives in an Asset Position:					
Forward currency-exchange contracts	Other Current Assets	\$ 265	\$ 1,549	\$ 2,536	\$ 15,612
Derivatives in a Liability Position:					
Forward currency-exchange contracts	Other Current Liabilities	\$ (172)	\$ 16,009	\$ —	\$ —

(a) See Note 10 for the fair value measurements relating to these financial instruments.

(b) The total notional amount is indicative of the level of the Company's derivative activity during the first quarter of 2016.

KADANT INC.
Notes to Condensed Consolidated Financial Statements
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9. Derivatives (continued)

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 period ended April 2, 2016:

(In thousands)	Interest Rate Swap Agreements	Forward Currency- Exchange Contracts	Total
Unrealized loss, net of tax, at January 2, 2016	\$ (162)	\$ (67)	\$ (229)
Loss reclassified to earnings (a)	57	56	113
Loss recognized in AOCI	(144)	(95)	(239)
Unrealized loss, net of tax, at April 2, 2016	<u>\$ (249)</u>	<u>\$ (106)</u>	<u>\$ (355)</u>

(a) See Note 8 for the income statement classification.

As of April 2, 2016, \$272,000 of the net unrealized loss included in AOCI is expected to be reclassified to earnings over the next twelve months.

10. Fair Value Measurements

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:

(In thousands)	Fair Value as of April 2, 2016			Total
	Level 1	Level 2	Level 3	
Assets:				
Money market funds and time deposits	\$ 7,063	\$ —	\$ —	\$ 7,063
Forward currency-exchange contracts	\$ —	\$ 334	\$ —	\$ 334
Banker's acceptance drafts (a)	\$ —	\$ 7,853	\$ —	\$ 7,853
Liabilities:				
Forward currency-exchange contracts	\$ —	\$ 407	\$ —	\$ 407
Interest rate swap agreements	\$ —	\$ 189	\$ —	\$ 189

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Notes to Condensed Consolidated Financial Statements
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10. Fair Value Measurements (continued)

(In thousands)	Fair Value as of January 2, 2016			
	Level 1	Level 2	Level 3	Total
Assets:				
Money market funds and time deposits	\$ 9,767	\$ —	\$ —	\$ 9,767
Forward currency-exchange contracts	\$ —	\$ 2,536	\$ —	\$ 2,536
Interest rate swap agreement	\$ —	\$ 38	\$ —	\$ 38
Banker's acceptance drafts (a)	\$ —	\$ 8,314	\$ —	\$ 8,314
Liabilities:				
Forward currency-exchange contracts	\$ —	\$ 101	\$ —	\$ 101
Interest rate swap agreement	\$ —	\$ 91	\$ —	\$ 91
Contingent consideration (b)	\$ —	\$ —	\$ 1,091	\$ 1,091

- (a) Included in accounts receivable in the accompanying condensed consolidated balance sheet.
(b) Included in other current liabilities 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 three months of 2016. The Company's financial assets and liabilities carried at fair value are comprised of cash equivalents, banker's acceptance drafts, and derivative instruments used to hedge the Company's foreign currency and interest rate risks. The Company's cash equivalents are comprised of money market funds and bank deposits which are highly liquid and readily tradable. These investments are valued using inputs observable in active markets for identical securities. The carrying value of banker's acceptance drafts approximates their fair value due to the short-term nature of the negotiable instrument. The fair values of the Company's interest rate swap agreements are based on LIBOR yield curves at the reporting date. The fair values of the Company's forward currency-exchange contracts are based on quoted forward foreign exchange rates at the reporting date. The forward currency-exchange contracts and interest rate swap agreements are hedges of either recorded assets or liabilities or anticipated transactions. Changes in values of the underlying hedged assets and liabilities or anticipated transactions are not reflected in the table above. The Company recorded contingent consideration as part of its acquisition of a European manufacturer on December 30, 2013. The fair value of the contingent consideration was based on the present value of the estimated future cash flows. Changes to the fair value of contingent consideration were recorded in SG&A expenses. This contingent consideration was paid during the first quarter of 2016.

The following table provides a rollforward of the fair value, as determined by Level 3 inputs, of the contingent consideration:

(In thousands)	Three Months Ended April 2, 2016
Balance at beginning of period	\$ 1,091
Payment	(1,091)
Balance at end of period	\$ —

The carrying value and fair value of the Company's long-term debt obligations are as follows:

(In thousands)	April 2, 2016		January 2, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Long-term debt obligations	\$ 67,046	\$ 67,046	\$ 26,000	\$ 26,000

The carrying value of long-term debt obligations approximates fair value as the obligations bear variable rates of interest, which adjust quarterly based on prevailing market rates.

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11. Business Segment Information

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

(In thousands)	Three Months Ended	
	April 2, 2016	April 4, 2015
Revenues:		
Papermaking Systems	\$ 84,027	\$ 80,655
Wood Processing Systems	8,707	7,772
Fiber-based Products	3,804	3,824
	\$ 96,538	\$ 92,251
Income from Continuing Operations Before Provision for Income Taxes:		
Papermaking Systems	\$ 13,497	\$ 12,283
Wood Processing Systems	806	2,245
Corporate and Fiber-based Products (a)	(4,210)	(4,157)
Total operating income	10,093	10,371
Interest expense, net	(214)	(178)
	\$ 9,879	\$ 10,193
Capital Expenditures:		
Papermaking Systems	\$ 518	\$ 952
Other	6	264
	\$ 524	\$ 1,216

(In thousands)	April 2,	January 2,
	2016	2016
Total Assets:		
Papermaking Systems	\$ 393,984	\$ 354,417
Wood Processing Systems	48,707	53,347
Corporate and Fiber-based Products (b)	14,914	7,719
Total Assets from Continuing Operations	457,605	415,483
Total Assets from Discontinued Operation	15	15
	\$ 457,620	\$ 415,498

(a) Corporate primarily includes general and administrative expenses.

(b) Primarily includes cash and cash equivalents and property, plant, and equipment.

12. Contingencies and Litigation

Right of Recourse

In the ordinary course of business, the Company's subsidiaries in China may receive banker's acceptance drafts from customers as payment for outstanding accounts receivable. These banker's acceptance drafts are non-interest bearing and mature within six months of the origination date. The Company's subsidiaries in China 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. As of April 2, 2016 and January 2, 2016, the Company had \$4,656,000 and \$6,897,000, respectively, 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.

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12. Contingencies and Litigation (continued)

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 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.

13. Subsequent Events

Acquisition

On April 4, 2016, the Company acquired all of the outstanding shares of RT Holding GmbH, the parent corporation of a group of companies known as the PAALGROUP (PAAL) for approximately 49,700,000 euros, net of cash acquired, or approximately \$56,600,000. The Company entered into a \$29,866,000 euro-denominated borrowing under its 2012 Credit Agreement in the first quarter of 2016 to fund the acquisition. PAAL manufactures channel balers and related equipment used in the processing of recyclable and waste materials. This acquisition broadens the Company's product portfolio and extends its presence deeper into recycling and waste management. PAAL, headquartered in Germany, has operations in Germany, the United Kingdom, France, and Spain. The purchase price allocation for the acquisition is not yet available.

Debt Repayment

In May 2016, the remaining principal balance of \$5,125,000 on the commercial real estate loan was repaid and the 2006 Swap Agreement expired.

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

This Quarterly Report on Form 10-Q includes forward-looking statements that are not statements of historical fact, and may include statements regarding possible or assumed future results of operations. Forward-looking statements are subject to risks and uncertainties and are based on the beliefs and assumptions of our management, using information currently available to our management. When we use words such as "believes," "expects," "anticipates," "intends," "plans," "estimates," "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 the section captioned "Risk Factors" in Part I, Item 1A, of the Company's Annual Report on Form 10-K for the fiscal year ended January 2, 2016 (fiscal 2015), as filed with the Securities and Exchange Commission (SEC).

Overview

Company Background

We are a leading global supplier of equipment used in process industries, including papermaking, paper recycling, and oriented strand board (OSB), an engineered wood panel product used primarily in home construction. In addition, we manufacture granules made from papermaking byproducts. We have a large customer base that includes most of the world's major paper and OSB manufacturers. We believe our large installed base provides us with a spare parts and consumables business that yields higher margins than our capital equipment business. In the first three months of 2016, approximately 65% of our revenue was from the sale of parts and consumables products.

Overview (continued)

Our continuing operations are comprised of two reportable operating segments: Papermaking Systems and Wood Processing Systems, and a separate product line, Fiber-based Products. Through our Papermaking Systems segment, we develop, manufacture, and market a range of equipment and products for the global papermaking, paper recycling, and other process industries. Through our Wood Processing Systems segment, we design, manufacture, and market stranders and related equipment used in the production of OSB, and sell debarking and wood chipping equipment used in the forest products and the pulp and paper industries. Through our Fiber-based Products business, we manufacture and sell granules derived from pulp fiber for use as carriers for agricultural, home lawn and garden, and professional lawn, turf and ornamental applications, as well as for oil and grease absorption.

Papermaking Systems Segment

Our Papermaking Systems segment consists of the following product lines: Stock-Preparation; Doctoring, Cleaning, & Filtration; and Fluid-Handling.

- Stock-Preparation: custom-engineered systems and equipment, as well as standard individual components, for pulping, de-inking, screening, cleaning, and refining primarily recycled fiber for preparation for entry into the paper machine; and filtering, recausticizing, and evaporation equipment and systems used in the production of virgin pulp;
- Doctoring, Cleaning, & Filtration: doctoring systems and related consumables that continuously clean rolls to keep paper machines running efficiently; doctor blades made of a variety of materials to perform functions including cleaning, creping, web removal, flaking, and the application of coatings; profiling systems that control moisture, web curl, and gloss during paper converting; and systems and equipment used to continuously clean paper machine fabrics and rolls, drain water from pulp mixtures, form the sheet or web, and filter the process water for reuse. Doctoring and cleaning systems are also used in other industries, such as carbon fiber, textiles and food processing.
- Fluid-Handling: rotary joints, precision unions, steam and condensate systems, components, and controls used primarily in the dryer section of the papermaking process and during the production of corrugated boxboard, metals, plastics, rubber, textiles, chemicals, and food; and

Wood Processing Systems Segment

Our principal wood-processing products include:

- Stranders: disc and ring stranders and related parts and consumables that cut trees into strands for OSB production;
- Rotary Debarkers: rotary debarkers and related parts and consumables that employ a combination of mechanical abrasion and log-to-log contact to efficiently remove bark from logs of all shapes and species; and
- Chippers: disc, drum, and veneer chippers and related parts and consumables that are high quality, robust chipper systems for waste-wood and whole-log applications found in pulp woodrooms, chip plants, and sawmill and planer mill sites.

Fiber-based Products

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

Recent Acquisition

On April 4, 2016, we acquired all of the outstanding shares of RT Holding GmbH, the parent corporation of a group of companies known as the PAALGROUP (PAAL), for approximately 49.7 million euros, net of cash acquired, or approximately \$56.6 million. PAAL manufactures channel balers and related equipment used in the processing of recyclable and waste materials. This acquisition broadens our product portfolio and extends our presence deeper into recycling and waste management. PAAL, headquartered in Germany, has operations in Germany, the United Kingdom, France, and Spain.

Overview (continued)

International Sales

During the first three months of 2016 and 2015, approximately 53% and 46%, respectively, of our sales were to customers outside the United States, principally in Europe and Asia. We generally seek to charge our customers in the same currency in which our operating costs are incurred. However, our financial performance and competitive position can be affected by currency exchange rate fluctuations affecting the relationship between the U.S. dollar and foreign currencies. We seek to reduce our exposure to currency fluctuations through the use of forward currency exchange contracts. We may enter into forward contracts to hedge certain firm purchase and sale commitments denominated in currencies other than our subsidiaries' functional currencies.

Application of Critical Accounting Policies and Estimates

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

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. We believe that our most critical accounting policies, upon which our financial position depends and which involve the most complex or subjective decisions or assessments, are those described in "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the section captioned "Application of Critical Accounting Policies and Estimates" in Part II, Item 7, of our Annual Report on Form 10-K for the fiscal year ended January 2, 2016, filed with the SEC. There have been no material changes to these critical accounting policies since fiscal year-end 2015 that warrant disclosure.

Industry and Business Outlook

Our products are primarily sold in global process industries and used to produce packaging, tissue, and OSB, among numerous other products. In the first quarter of 2016, 63% of our revenue was from the sale of products that support packaging, tissue, and OSB production. Consumption of packaging, which is primarily comprised of corrugated boxboard and cartonboard, is driven by many factors, including regional economic conditions, consumer spending on non-durable goods, demand for processed foods and beverages, and greater urbanization in developing regions. Consumption of tissue is fairly stable, and in the developed world, tends to grow with the population. For both tissue and packaging, growth rates in the developing world are expected to increase as per capita consumption of paper increases with rising standards of living. The majority of OSB demand is in North America, as North American houses are more often constructed of wood compared to other parts of the world. Demand for OSB is tied to new home construction and remodeling. The remainder of our revenue was from sales to other process industries, which in general grow with the overall economy.

Our results of operations were negatively affected by foreign currency translation in the first quarter of 2016 compared to the first quarter of 2015. When we translate the local currency results of our foreign subsidiaries into U.S. dollars during a period in which the U.S. dollar is strengthening, our financial results will reflect decreases due to foreign currency translation. The negative effect on our financial results will continue if the U.S. dollar continues to strengthen relative to the functional currencies of our foreign subsidiaries. Similarly, if the U.S. dollar weakens compared to the functional currencies of our foreign subsidiaries, our financial results will reflect increases due to foreign currency translation. Further, certain foreign subsidiaries may hold U.S. dollar assets or liabilities which, as the U.S. dollar strengthens versus the applicable functional currencies, will result in currency transaction gains on assets and losses on liabilities. We have presented the material effects of foreign currency translation on our financial results under Results of Operations below.

Our bookings decreased 10% to \$97 million in the first quarter of 2016 compared to \$108 million in the first quarter of 2015. This decrease included a \$4 million, or 3%, decrease from the unfavorable effects of foreign currency translation. Our revenue and income tends to be variable as demand for our capital equipment is dependent on regional economic conditions and the level of capital spending by our customers, among other factors. Demand for our parts and consumables products tends to be more predictable. Bookings for our parts and consumables products were \$62 million, or 64% of total bookings, in the first quarter of 2016, compared to a record \$68 million, or 63% of total bookings, in the first quarter of 2015.

KADANT INC.

Overview (continued)

The largest and most important regional market for our products in the first quarter of 2016 was North America, a trend we expect to continue into the remainder of 2016, although at lower revenue levels. Our bookings in North America were \$54 million in the first quarter of 2016, down 5% compared to the first quarter of 2015. During the first quarter of 2016, demand for printing, writing, and newsprint grades all declined compared to the first quarter of 2015, while containerboard shipments saw a modest increase according to Resource Information Systems Inc. (RISI) reports. U.S. housing starts in March 2016 rose 14% compared to March 2015 and were at a seasonally adjusted annual rate of 1.089 million according to the U.S. Census Bureau and the Department of Housing and Urban Development. This growth is expected to have a positive impact on demand for U.S. lumber and structural wood panels, which includes OSB.

In Europe, we expect the overall economy to remain stable, yet somewhat constrained in 2016. Our bookings in Europe were \$19 million in the first quarter of 2016, essentially flat compared to 2015, and included a negative currency translation effect of \$1 million. Excluding the negative foreign currency translation effect, our bookings in Europe increased 3%. Our bookings in Europe will increase for the remainder of 2016 due to our recent acquisition of PAAL. Our bookings in Asia were \$18 million in the first quarter of 2016, down 23% from \$23 million in the first quarter of 2015. This decrease includes a \$1 million decrease from the negative effects of foreign currency translation. Weak demand and a relatively soft domestic economy affected most paper grades in China in 2015, a trend we expect to continue in 2016. The most recent RISI forecasts of containerboard demand growth of approximately 3% per year for the next few years suggest new capital project activity may remain at reduced levels in China in 2016. Our bookings in the rest of the world decreased 31% to \$6 million in the first quarter of 2016 compared to the first quarter of 2015 and were, and continue to be, negatively affected by the political uncertainty and recession in Brazil. This decrease includes a \$1 million decrease from the negative effect of foreign currency translation.

The acquisition of PAAL will increase our 2016 revenue although the acquisition-related costs will have a negative effect on our GAAP diluted earnings per share (EPS). For 2016, we expect revenue of \$412 to \$422 million, revised from our previous guidance of \$370 to \$380 million. We expect to achieve GAAP diluted EPS for 2016 of \$2.75 to \$2.85, revised from our previous guidance of \$2.80 to \$2.90. Our revised 2016 guidance includes \$0.14 of acquisition costs, \$0.10 of expense related to acquired inventory and backlog and a \$0.02 gain on the sale of assets. For the second quarter of 2016, we expect to achieve GAAP diluted EPS of \$0.50 to \$0.53 on revenue of \$103 to \$105 million. Our second quarter of 2016 GAAP diluted EPS includes \$0.02 of acquisition costs and \$0.10 of expense related to acquired inventory and backlog.

Results of Operations

First Quarter 2016 Compared With First Quarter 2015

The following table sets forth our unaudited condensed consolidated statement of income expressed as a percentage of total revenues from continuing operations for the first fiscal quarters of 2016 and 2015. The results of operations for the fiscal quarter ended April 2, 2016 are not necessarily indicative of the results to be expected for the full fiscal year.

	Three Months Ended	
	April 2, 2016	April 4, 2015
Revenues	100%	100%
Costs and Operating Expenses:		
Cost of revenues	54	52
Selling, general, and administrative expenses	34	35
Research and development expenses	2	2
Restructuring costs and other income	—	—
	90	89
Operating Income	10	11
Interest Income (Expense), Net	—	—
Income from Continuing Operations Before Provision for Income Taxes	10	11
Provision for Income Taxes	3	3
Income from Continuing Operations	7%	8%

KADANT INC.

Results of Operations (continued)

Revenues

Revenues for the first quarters of 2016 and 2015 were as follows:

(In thousands)	Three Months Ended	
	April 2, 2016	April 4, 2015
Revenues:		
Papermaking Systems	\$ 84,027	\$ 80,655
Wood Processing Systems	8,707	7,772
Fiber-based Products	3,804	3,824
	<u>\$ 96,538</u>	<u>\$ 92,251</u>

Papermaking Systems Segment. Revenues increased \$3.3 million, or 4%, to \$84.0 million in the first quarter of 2016 from \$80.7 million in the first quarter of 2015, including a \$2.8 million decrease from the unfavorable effect of foreign currency translation. Excluding the effect of foreign currency translation, revenues in our Papermaking Systems segment increased \$6.2 million, or 8%, primarily due to increased demand for our capital equipment, especially in Europe and China.

Wood Processing Systems Segment. Revenues increased \$0.9 million, or 12%, to \$8.7 million in the first quarter of 2016 from \$7.8 million in the first quarter of 2015, including a \$0.9 million decrease from the unfavorable effect of foreign currency translation. Excluding the effect of foreign currency translation, revenues in our Wood Processing Systems segment increased \$1.8 million, or 24%, due to increased demand for our capital products in Europe.

Papermaking Systems Segment by Product Line. The following table presents revenues for our Papermaking Systems segment by product line, the changes in revenues by product line between the first quarters of 2016 and 2015, and the changes in revenues by product line between the first quarters of 2016 and 2015 excluding the effect of currency translation. The increase (decrease) in revenues excluding the effect of currency translation represents the increase (decrease) resulting from converting first quarter of 2016 revenues in local currency into U.S. dollars at first quarter of 2015 exchange rates, and then comparing this result to actual revenues in the first quarter of 2015. The presentation of the changes in revenues by product line excluding the effect of currency translation 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 our 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.

(In thousands)	Three Months Ended			Increase (Decrease) Excluding Effect of Foreign Currency Translation
	April 2, 2016	April 4, 2015	Increase (Decrease)	
Papermaking Systems Product Lines:				
Stock-Preparation	\$ 38,418	\$ 30,646	\$ 7,772	\$ 8,389
Doctoring, Cleaning, & Filtration	23,839	27,286	(3,447)	(2,275)
Fluid-Handling	21,770	22,723	(953)	87
	<u>\$ 84,027</u>	<u>\$ 80,655</u>	<u>\$ 3,372</u>	<u>\$ 6,201</u>

Revenues from our Stock-Preparation product line in the first quarter of 2016 increased \$7.8 million, or 25%, compared to the first quarter of 2015, including a \$0.6 million decrease from the unfavorable effect of foreign currency translation. Excluding the unfavorable effect of foreign currency translation, revenues from our Stock-Preparation product line increased \$8.4 million, or 27%, compared to the first quarter of 2015, primarily due to increased demand for our capital products at our North American and European operations and, to a lesser extent, our Chinese operations. In addition, there was increased demand for our parts and consumables products at our European operations. Revenues from our Doctoring, Cleaning, & Filtration product line in the first quarter of 2016 decreased \$3.4 million, or 13%, compared to the first quarter of 2015, including a \$1.1 million decrease from the unfavorable effect of foreign currency translation. Excluding the unfavorable effect of foreign currency translation, revenues from our Doctoring, Cleaning & Filtration product line decreased \$2.3 million, or 8%,

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Results of Operations (continued)

compared to the first quarter of 2015, primarily due to decreased demand for our capital products at our North American operations. Revenues from our Fluid-Handling product line in the first quarter of 2016 decreased \$1.0 million, or 4%, primarily due to a \$1.1 million unfavorable effect of foreign currency translation. Excluding the unfavorable effect of foreign currency translation, revenues from our Fluid-Handling product line increased \$0.1 million compared to the first quarter of 2015, primarily due to increased demand for our capital products at our European operations, largely offset by decreased demand for our parts and consumables products at our North American operations.

Gross Profit Margin

Gross profit margins for the first quarters of 2016 and 2015 were as follows:

	Three Months Ended	
	April 2, 2016	April 4, 2015
Gross Profit Margin:		
Papermaking Systems	46.6%	47.5%
Wood Processing Systems	33.0	51.1
Fiber-based Products	51.6	54.3
	45.6%	48.1%

Papermaking Systems Segment. The gross profit margin in the Papermaking Systems segment decreased to 46.6% in the first quarter of 2016 from 47.5% in the first quarter of 2015. This decrease was primarily due to a decrease in the proportion of higher-margin parts and consumables revenues.

Wood Processing Systems Segment. The gross profit margin in our Wood Processing Systems segment decreased to 33.0% in the first quarter of 2016 from 51.1% in the first quarter of 2015 primarily due to lower gross profit margins on our parts and consumables products due to product mix, and on our capital products, due to targeted pricing. Also contributing to the lower gross profit margin in the first quarter of 2016 was a decrease in the proportion of higher-margin parts and consumables revenues compared to the first quarter of 2015.

Fiber-based Products. The gross profit margin in our Fiber-based Products business decreased to 51.6% in the first quarter of 2016 from 54.3% in the first quarter of 2015 primarily due to decreased manufacturing efficiency related to lower production volumes.

Operating Expenses

Selling, general, and administrative (SG&A) expenses as a percentage of revenues were 34% and 35% in the first quarters of 2016 and 2015, respectively. SG&A expenses increased \$0.3 million, or 1%, to \$32.5 million in the first quarter of 2016 from \$32.2 million in the first quarter of 2015, including a decrease of \$1.0 million from the favorable effect of foreign currency translation. Excluding the favorable effect of foreign currency translation, SG&A expenses increased \$1.3 million in the first quarter of 2016 compared to the first quarter of 2015 due to \$1.4 million of acquisition costs incurred related to the acquisition of PAAL.

Total stock-based compensation expense was \$1.3 million and \$1.6 million in the first quarters of 2016 and 2015, respectively, and is included in SG&A expenses in the accompanying condensed consolidated statement of income.

Research and development expenses were \$1.7 million in both the first quarters of 2016 and 2015, respectively, and represented 2% of revenues in both periods.

Restructuring Costs and Other Income

We recorded other income in the first quarter of 2016 from a pre-tax gain of \$0.3 million related to the sale of real estate in Sweden for cash proceeds of \$0.4 million.

We recorded restructuring costs of \$0.1 million in the first quarter of 2015 related to severance costs associated with the reduction of five employees in Canada and Sweden. All restructuring actions occurred in the Papermaking Systems segment.

Results of Operations (continued)*Provision for Income Taxes*

Our provision for income taxes was \$2.9 million and \$3.3 million in the first quarters of 2016 and 2015, respectively, and represented 29% and 32% of pre-tax income. The effective tax rate of 29% in the first quarter of 2016 was lower than our statutory tax rate primarily due to the distribution of our worldwide earnings and the adoption of Accounting Standards Update (ASU) No. 2016-09 that resulted in a favorable adjustment for the net excess income tax benefits from stock-based compensation arrangements. These items were offset in part by an increase in tax related to non-deductible expenses and state taxes. The effective tax rate of 32% in the first quarter of 2015 was lower than our statutory tax rate primarily due to the distribution of our worldwide earnings, which was offset in part by an increase in state taxes, tax expense related to an increase in non-deductible expenses, and the U.S. tax cost of foreign operations.

Income from Continuing Operations

Income from continuing operations increased \$0.1 million to \$7.0 million in the first quarter of 2016 from \$6.9 million in the first quarter of 2015, including a decrease in the provision for income taxes of \$0.4 million offset in part by a decrease in operating income of \$0.3 million (see *Revenues, Gross Profit Margin, Operating Expenses and Provision for Income Taxes* discussed above).

Recent Accounting Pronouncements

Revenue from Contracts with Customers (Topic 606) Section A-Summary and Amendments That Create Revenue from Contracts with Customers (Topic 606) and Other Assets and Deferred Costs-Contracts with Customers (Subtopic 340-40). In May 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The new guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. The ASU will replace most existing revenue recognition guidance in GAAP when it becomes effective. In March 2016, the FASB issued ASU No. 2016-08, which further clarifies the guidance on the principal versus agent considerations within ASU No. 2014-09. In April 2016, the FASB issued ASU No. 2016-10 to expand the guidance on identifying performance obligations and licensing within ASU 2014-09. These new ASUs are effective for us beginning in fiscal 2018. Early adoption is permitted in fiscal 2017. The guidance permits the use of either the retrospective or cumulative effect transition method. We are currently evaluating the effect that these ASUs will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

Compensation-Stock Compensation (Topic 718) Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. In June 2014, the FASB issued ASU No. 2014-12, which clarifies the proper method of accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. Under the new guidance, a performance target that affects vesting and could be achieved after completion of the service period should be treated as a performance condition under FASB Accounting Standards Codification (ASC) 718 and, as a result, should not be included in the estimation of the grant-date fair value of the award. An entity should recognize compensation cost for the award when it becomes probable that the performance target will be achieved. In the event that an entity determines that it is probable that a performance target will be achieved before the end of the service period, the compensation cost of the award should be recognized prospectively over the remaining service period. We adopted this guidance at the beginning of fiscal 2016. The adoption of this ASU did not have an impact on our condensed consolidated financial statements.

Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. In April 2015, the FASB issued ASU No. 2015-03, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. In addition, in June 2015, the FASB issued ASU No. 2015-15, which allows an entity to defer the requirements of ASU No. 2015-03 on deferred issuance costs related to line-of-credit arrangements. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in these ASUs. These new disclosure items are effective for us beginning in fiscal 2016. We adopted the guidance in these ASUs at the beginning of fiscal 2016. Adoption of these ASUs did not have an impact on our condensed consolidated financial statements.

Results of Operations (continued)

Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). In May 2015, the FASB issued ASU No. 2015-07, which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. This ASU also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. We adopted the disclosure requirements in this guidance at the beginning of fiscal 2016. As this ASU is disclosure-related only, its adoption did not have an effect on our condensed consolidated financial statements.

Inventory (Topic 330), Simplifying the Measurement of Inventory. In July 2015, the FASB issued ASU No. 2015-11, which requires that an entity measure inventory within the scope of this ASU at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Substantial and unusual losses that result from subsequent measurement of inventory should be disclosed in the financial statements. This new guidance is effective for us beginning in fiscal 2017. Early adoption is permitted. We are currently evaluating the effect that this ASU will have on our condensed consolidated financial statements.

Business Combinations (Topic 805), Simplifying the Accounting for Measurement-Period Adjustments. In September 2015, the FASB issued ASU No. 2015-16, which requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The acquirer is required to record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. In addition, an entity is required to present, separately on the face of the income statement or through disclosure in the notes, the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. We adopted this guidance at the beginning of fiscal 2016. Adoption of this ASU did not have an impact on our condensed consolidated financial statements.

Leases (Topic 842). In February 2016, the FASB issued ASU No. 2016-02, which requires a lessee to recognize a right-of-use asset and a lease liability for operating leases, initially measured at the present value of the future lease payments, in its balance sheet. This ASU also requires a lessee to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term, generally on a straight-line basis. This new guidance is effective for us in fiscal 2019. Early adoption is permitted. We are currently evaluating the effects that the adoption of this ASU will have on our condensed consolidated financial statements.

Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. In March 2016, the FASB issued ASU No. 2016-09, which simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification in the statement of cash flows. We early adopted this ASU at the beginning of fiscal 2016. This ASU requires that excess income tax benefits and tax deficiencies related to stock-based compensation arrangements be recognized as discrete items within the provision for income taxes instead of additional paid in capital in the reporting period in which they occur. As a result of the adoption of this ASU, we recognized an income tax benefit of \$0.2 million, or \$0.02 per diluted share, in our condensed consolidated statement of income in the first quarter of 2016. We prospectively adopted the requirement to classify the excess tax benefits from stock-compensation awards within operating activities in the condensed consolidated statement of cash flows in the first quarter of 2016. Prior period amounts were not restated. We have also adopted the guidance in this ASU that requires that taxes paid related to the withholding of common stock upon the vesting of employee stock awards be presented separately within financing activities in the condensed consolidated statement of cash flows. We have retrospectively restated the 2015 period to reclassify the comparative amount, which was previously presented in other current liabilities within operating activities. There were no other material effects from adoption of this ASU on our condensed consolidated financial statements.

Liquidity and Capital Resources

Consolidated working capital was \$160.4 million at April 2, 2016, compared with \$108.5 million at January 2, 2016. Included in working capital are cash and cash equivalents of \$104.5 million and \$65.5 million at April 2, 2016 and January 2, 2016, respectively. At April 2, 2016, \$98.3 million of our cash and cash equivalents were held by our foreign subsidiaries.

Liquidity and Capital Resources (continued)

First Three Months of 2016

Our operating activities provided cash of \$5.5 million in the first quarter of 2016. Working capital used cash of \$5.6 million in the first quarter of 2016, including \$9.5 million for other current liabilities primarily related to incentive compensation and income tax payments and \$1.8 million for other current assets primarily related to an increase in refundable income taxes. These uses of cash were offset in part by \$4.3 million of cash provided from a decrease in unbilled contract costs and fees related to shipments in the first quarter of 2016 and \$3.3 million of cash provided by a decrease in accounts receivable.

Our investing activities used cash of \$3.0 million in the first quarter of 2016 primarily related to the issuance of a note receivable from PAAL immediately prior to the acquisition used to collateralize bank guarantees.

Our financing activities provided cash of \$36.0 million in the first quarter of 2016. We received \$41.0 million in proceeds from borrowings under our unsecured revolving credit facility (2012 Credit Agreement), of which \$29.9 million was used to fund the PAAL acquisition, which occurred at the beginning of the second quarter of 2016. We used cash of \$2.0 million for tax withholding payments related to the vesting of restricted stock awards and \$1.8 million for cash dividends paid to stockholders. In addition, we paid \$1.1 million of contingent consideration related to a prior period acquisition.

First Three Months of 2015

Our operating activities used cash of \$2.3 million in the first quarter of 2015. Working capital used cash of \$12.0 million in the first quarter of 2015, including \$7.7 million for inventories and \$5.2 million for accounts receivable. The increase in inventory was primarily due to an increase in work in process at our Stock-Preparation product line related to projects that shipped later in 2015. The increase in accounts receivable was due to significant shipments in the last month of the first quarter of 2015.

Our investing activities used cash of \$1.2 million in the first quarter of 2015 for purchases of property, plant, and equipment.

Our financing activities provided cash of \$1.8 million in the first quarter of 2015. We received \$10 million in proceeds from borrowings under our 2012 Credit Agreement and used cash of \$5.1 million for principal payments on our outstanding debt obligations. We used cash of \$2.3 million for tax withholding payments related to the vesting of restricted stock awards and \$1.6 million for cash dividends paid to stockholders.

Additional Liquidity and Capital Resources

On April 4, 2016, we acquired all of the outstanding shares of RT Holding GmbH, the parent corporation of PAAL, for approximately 49.7 million euros, net of cash acquired, or approximately \$56.6 million. We entered into a \$29.9 million euro-denominated borrowing under our 2012 Credit Agreement in the first quarter of 2016 to fund the acquisition. The remaining balance of the purchase price was funded with cash from our European subsidiaries.

On May 20, 2015, our board of directors approved the repurchase by us of up to an additional \$20 million of our equity securities during the period from May 20, 2015 to May 20, 2016. We did not purchase any shares of our common stock under this authorization in the first quarter of 2016.

We paid quarterly cash dividends totaling \$1.8 million in the first quarter of 2016. On March 8, 2016, we declared a quarterly cash dividend of \$0.19 per outstanding share of our common stock, which will be paid on May 12, 2016 to shareholders of record on April 14, 2016. Future declarations of dividends are subject to board of directors' approval and may be adjusted as business needs or market conditions change. The payment of cash dividends is subject to our compliance with the consolidated leverage ratio contained in our 2012 Credit Agreement.

It is our intent to reinvest indefinitely the earnings of our international subsidiaries in order to support the current and future capital needs of their operations. We do not anticipate the need to repatriate funds to the United States to satisfy domestic liquidity needs arising in the ordinary course of business. Through April 2, 2016, we have not provided for U.S. income taxes on approximately \$169.4 million of unremitted foreign earnings. The U.S. tax cost has not been determined due to the fact that it is not practicable to estimate at this time. The related foreign tax withholding, which would be required if we were to remit the foreign earnings to the U.S., would be approximately \$3.5 million.

Liquidity and Capital Resources (continued)

Although we currently have no material commitments for capital expenditures, we plan to make expenditures of approximately \$7 to \$8 million during the remainder of 2016 for property, plant, and equipment.

In the future, our liquidity position will be primarily affected by the level of cash flows from operations, cash paid to satisfy debt repayments, capital projects, dividends, stock repurchases, or acquisitions. We believe that our existing resources, together with the cash available from our credit facilities and the cash we expect to generate from continuing operations, will be sufficient to meet the capital requirements of our current operations for the foreseeable future.

Revolving Credit Facility

We entered into a five-year unsecured revolving credit facility (2012 Credit Agreement) in the aggregate principal amount of up to \$100 million on August 3, 2012 and amended it on November 1, 2013 and March 29, 2016. The 2012 Credit Agreement includes an uncommitted unsecured incremental borrowing facility of up to an additional \$50 million. The principal on any borrowings made under the 2012 Credit Agreement is due on November 1, 2018. Interest on any loans outstanding under the 2012 Credit Agreement accrues and is payable quarterly in arrears at one of the following rates selected by us: (i) the highest of (a) the federal funds rate plus 0.50% plus an applicable margin of 0% to 1%, (b) the prime rate, as defined, plus an applicable margin of 0% to 1%, and (c) the Eurocurrency rate, as defined, plus 0.50% plus an applicable margin of 0% to 1% or (ii) the Eurocurrency rate, as defined, plus an applicable margin of 1% to 2%. The applicable margin is determined based upon the ratio of our total debt to earnings before interest, taxes, depreciation, and amortization, as defined in the 2012 Credit Agreement. For this purpose, total debt is defined as total debt less up to \$25 million of unrestricted U.S. cash.

As of April 2, 2016, the outstanding balance under the 2012 Credit Agreement was \$67.0 million, an increase of \$41.0 million from January 2, 2016. This increase includes a \$29.9 million euro-denominated borrowing used to fund the acquisition of PAAL on April 4, 2016. As of April 2, 2016, we had \$32.2 million of borrowing capacity available under the committed portion of the 2012 Credit Agreement. The amount we are able to borrow under the 2012 Credit Agreement is the total borrowing capacity of \$100 million less any outstanding borrowings, letters of credit and multi-currency borrowings issued under the 2012 Credit Agreement.

Our obligations under the 2012 Credit Agreement may be accelerated upon the occurrence of an event of default under the 2012 Credit Agreement, which includes customary events of default including without limitation payment defaults, defaults in the performance of affirmative and negative covenants, the inaccuracy of representations or warranties, bankruptcy- and insolvency-related defaults, defaults relating to such matters as the Employment Retirement Income Security Act, unsatisfied judgments, the failure to pay certain indebtedness, and a change of control default. In addition, the 2012 Credit Agreement contains negative covenants applicable to us and our subsidiaries, including financial covenants requiring us to comply with a maximum consolidated leverage ratio of 3.5 to 1 and a minimum consolidated interest coverage ratio of 3 to 1, and restrictions on liens, indebtedness, fundamental changes, dispositions of property, making certain restricted payments (including dividends and stock repurchases), investments, transactions with affiliates, sale and leaseback transactions, swap agreements, changing our fiscal year, arrangements affecting subsidiary distributions, entering into new lines of business, and certain actions related to the discontinued operation. As of April 2, 2016, we were in compliance with these covenants.

Loans under the 2012 Credit Agreement are guaranteed by certain of our domestic subsidiaries pursuant to a Guarantee Agreement, effective August 3, 2012.

Commercial Real Estate Loan

On May 4, 2006, we borrowed \$10 million under a promissory note (Commercial Real Estate Loan). As of April 2, 2016, the remaining balance on the Commercial Real Estate Loan was \$5.1 million, which was repaid in May 2016.

Interest Rate Swap Agreements

On January 16, 2015, we entered into a swap agreement (2015 Swap Agreement) to hedge our exposure to movements in the three-month LIBOR rate on future outstanding debt. The 2015 Swap Agreement expires on March 27, 2020 and has a \$10 million notional value. Under the 2015 Swap Agreement, on a quarterly basis we receive a three-month LIBOR rate and pay a fixed rate of interest of 1.50% plus an applicable margin.

We entered into a swap agreement in 2006 (2006 Swap Agreement) to convert the Commercial Real Estate Loan from a floating to a fixed rate of interest. The 2006 Swap Agreement expired in May 2016.

Liquidity and Capital Resources (continued)

As of April 2, 2016, the interest rate swap agreements had a net unrealized loss of \$0.2 million. We believe that any credit risk associated with the swap agreements is remote based on our financial position and the creditworthiness of the financial institution issuing the swap agreements.

The counterparty to the swap agreements could demand an early termination of the swap agreements if we are in default under the 2012 Credit Agreement, or any agreement that amends or replaces the 2012 Credit Agreement in which the counterparty is a member, and we are unable to cure the default. An event of default under the 2012 Credit Agreement includes customary events of default and failure to comply with financial covenants, including a maximum consolidated leverage ratio of 3.5 to 1 and a minimum consolidated interest coverage ratio of 3 to 1. The net unrealized loss of \$0.2 million associated with the swap agreements as of April 2, 2016 represents the estimated amount that we would pay to the counterparty in the event of an early termination.

Item 3 – Quantitative and Qualitative Disclosures About Market Risk

Our exposure to market risk from changes in interest rates and foreign currency exchange rates has not changed materially from our exposure at fiscal year-end 2015 as disclosed in Item 7A of our Annual Report on Form 10-K for the fiscal year ended January 2, 2016, filed with the SEC.

Item 4 – Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of April 2, 2016. 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 April 2, 2016, our Chief Executive Officer and Chief Financial Officer concluded that as of April 2, 2016, our disclosure controls and procedures were effective at the reasonable assurance level.

(b) 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 April 2, 2016 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

There have been no material changes from the risk factors disclosed in Part I, Item 1A of the Company's Annual Report on Form 10-K for the fiscal year ended January 2, 2016, filed with the SEC.

Item 6 – Exhibits

See Exhibit Index on the page immediately preceding the exhibits.

KADANT INC.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized as of the 11th day of May, 2016.

KADANT INC.

/s/ Michael J. McKenney

Michael J. McKenney

Senior Vice President and Chief Financial Officer

(Principal Financial Officer)

KADANT INC.

EXHIBIT INDEX

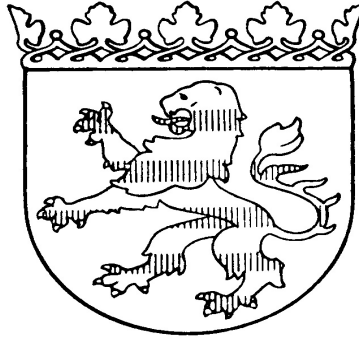
Exhibit Number	Description of Exhibit
2.1	Deed Number 99/2016 representing the Share Purchase and Transfer Agreement dated April 4, 2016, among GEP SPV Limited, Mr. Franzotto Hornung, and Mr. Stuart Craig Heley, (collectively, the “Sellers”), RT Holding GmbH (the “Company”), and Kadant Johnson Deutschland GmbH and Kadant Cayman Ltd (collectively, the “Purchasers”). (1)
10.1	Second Amendment to Credit Agreement dated March 29, 2016, among Kadant Inc., 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 Multi-currency 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	XBRL Instance Document.*
101.SCH	XBRL Taxonomy Extension Schema Document.*
101.CAL	XBRL Taxonomy Calculation Linkbase Document.*
101.LAB	XBRL Taxonomy Label Linkbase Document.*
101.PRE	XBRL Taxonomy Presentation Linkbase Document.*
101.DEF	XBRL Taxonomy Definition Linkbase Document.*

* Submitted electronically herewith.

(1) The schedules to this document have been omitted from this filing pursuant to Item 601(b)(2) of Regulation S-K. The Company will furnish copies of any of the schedules to the U.S. Securities and Exchange Commission upon request.

Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Balance Sheet at April 2, 2016 and January 2, 2016, (ii) Condensed Consolidated Statement of Income for the three months ended April 2, 2016 and April 4, 2015, (iii) Condensed Consolidated Statement of Comprehensive Income (Loss) for the three months ended April 2, 2016 and April 4, 2015, (iv) Condensed Consolidated Statement of Cash Flows for the three months ended April 2, 2016 and April 4, 2015, (v) Condensed Consolidated Statement of Stockholders' Equity for the three months ended April 2, 2016 and April 4, 2015, and (vi) Notes to Condensed Consolidated Financial Statements.

Deed Number 99/2016



Done at Frankfurt am Main
on 04.04.2016

Before me, the undersigned Notar

Klaus Beine

whose official seat is Frankfurt am Main

Westhafen Tower, Westhafenplatz 1, 60327 Frankfurt am Main

Telefon: +49 69-75 60 95-251 Telefax: +49 69-75 60 95-512

E-Mail: Klaus.Beine@bblaw.com

appeared:

- 1 Ms. Birgit Hübscher-Alt, attorney-at-law, born on 01 May 1976, with business address at Mayer Brown LLP, Friedrich-Ebert-Anlage 35-37, 60327 Frankfurt am Main, identified by German identity card, acting not in her own name, but, excluding any personal liability, in the name and on behalf of:

GEP SPV Limited, pursuant to a power of attorney dated 23.03.2016 which was presented as original document and which is attached as a certified copy to this Deed;

- 2 **Mr. Stuart Craig Heley** born on 14 September 1964, domiciled at 50 Lichfield Road, Sutton Coldfield, West Midlands B74 2NA, United Kingdom; identified by passport of UK,
 - 3 **Mr. Franzotto Hornung** born on 18 January 1949, domiciled at Am Michelgrund 16, 69469 Weinheim, Germany; identified by German identity card,
-

The persons appearing to 2 und 3 acting in their own name and in their capacity as managing directors with power of sole representation and released from the restrictions of sec 181 German Civil Code (*Bürgerliches Gesetzbuch*, "**BGB**"), which I certify on the basis of the electronic inspection on 30.03.2016 of the Commercial Register number HRB 110813 at the local court in Osnabrück, on behalf of

RT Holding GmbH;

- 4 Dr. Sebastian Graf von Wallwitz, attorney-at-law, born on 2 July 1965, with business address at Wittelsbacherplatz 1, 80333 München, Germany, identified by German identity card, acting not in his own name, but, excluding any personal liability, pursuant to the attached powers of attorney in the name and on behalf of:
- a) **Kadant Johnson Deutschland GmbH** pursuant to a power of attorney dated 30.03.2016 a copy of which was available at the recording, the original will be submitted and a certified copy of which will be attached to this deed;
 - b) **Kadant Cayman Ltd. pursuant to a power of attorney dated 30.03.2016** a copy of which was available at the recording, the original will be submitted and a certified copy of which will be attached to this deed

Having been asked by the Notar whether a case of prior involvement (*Vorbefassung*) within the meaning of § 3 subsection 7 No. 1 of the German Notarization Act (*Beurkundungsgesetz*) was at issue, the persons appearing declared that neither they nor the entities represented by them had been involved with the Notar or his office in this transaction before.

The persons appearing asked for the notarisation of the following:

For the purpose of this Agreement, the persons appearing made reference to the deed of the Notar No. 98/2016 (the "**Reference Deed**"). The persons appearing acknowledged and confirmed that they know the entire contents and confirmed the declarations which were made in the Reference Deed on behalf of the parties to this Deed. After having been advised by the Notar of their rights to have the Reference Deed read aloud to them and attached to this Deed, the persons appearing waived such rights. The original of the Reference Deed was available during the notarization of this Deed.

The annexes mentioned in the document are the annexes to the deed of reference.

SHARE PURCHASE AND TRANSFER AGREEMENT

the "Agreement"

- (1) **GEP SPV Limited**, 1 Royal Plaza, Royal Avenue, St. Peter Port, Guernsey, GY1 2HL, a Limited Liability Company incorporated under the laws of Guernsey
hereinafter referred to as the "**Seller 1**"
- (2) **Mr. Franzotto Hornung**, born on 18 January 1949, domiciled at Am Michelgrund 16, 69469 Weinheim, Germany
hereinafter referred to as the "**Seller 2**"
- (3) **Mr. Stuart Craig Heley**, born on 14 September 1964, domiciled at 50 Lichfield Road, Sutton Coldfield, West Midlands B74 2NA, United Kingdom
hereinafter referred to as the "**Seller 3**"
- (4) **RT Holding GmbH**, Raiffeisenstraße 15-17, 49124 Georgsmarienhütte, registered with the commercial register at the local court of Osnabrück under HRB 110813
hereinafter referred to as the "**Company**"
- (5) **Kadant Johnson Deutschland GmbH**, Carl-Leverkus-Straße 10A, 40764 Langenfeld (Rheinland), registered with the commercial register at the local court of Düsseldorf under HRB 45851
hereinafter referred to as the "**Share Purchaser**"
- (6) **Kadant Cayman Ltd**, PO Box 309, Uglan House, KY1-1104, Grand Cayman, Cayman Islands, registered with the General Registry Cayman Islands under number CR 309807,

hereinafter referred to as the "**Loan Purchaser**" and collectively with the Share Purchaser the "**Purchasers**"

The Seller 1, the Seller 2 and the Seller 3 are hereinafter collectively referred to as the "**Sellers**".

The Sellers and the Purchasers are hereinafter collectively referred to as the "**Parties**" and each as a "**Party**".

RECITALS

- A. WHEREAS, RT Holding GmbH with business seat in Georgsmarienhütte is registered with the commercial register at the local court of Osnabrück under HRB 110813 (hereinafter referred to as the "**Company**") and has a registered and fully paid up share capital of EUR 4,023,900 (in words: four million twenty-three thousand nine hundred Euros).
- B. WHEREAS, according to the most recent shareholders' list dated 2 March 2015, which has been registered with the commercial register at the local court of Osnabrück on 4 March 2015 and which is attached hereto as Annex B, the Sellers are holding the following shares in the Company:

Shareholder	Shares
Seller 1	One share in the nominal amount of EUR 8,968;
	One share in the nominal amount of EUR 548;
	One share in the nominal amount of EUR 769,200;
	One share in the nominal amount of EUR 1,964,576;
	One share in the nominal amount of EUR 120,036;
	One share in the nominal amount of EUR 879,156;
	One share in the nominal amount of EUR 53,716;
	collectively the " Seller 1 Shares "
Seller 2	One share in the nominal amount of EUR 174,300;
	the " Seller 2 Share "
Seller 3	One share in the nominal amount of EUR 26,700;
	One share in the nominal amount of EUR 18,388;
	One share in the nominal amount of EUR 8,228;
	One share in the nominal amount of EUR 84;
	collectively the " Seller 3 Shares "

The Seller 1 Shares, the Seller 2 Share and the Seller 3 Shares comprise all of the issued and outstanding shares in the Company and are hereinafter collectively referred to as the "**Shares**".

- C. WHEREAS, the Company directly or indirectly owns shares in subsidiaries as shown in Annex C (these companies together are hereinafter referred to as the "**Subsidiaries**" and, together with the Company, are hereinafter referred to as the "**RT Group**" or the "**Group Companies**"). The shares held by the Company in the Subsidiaries are hereinafter referred to as the "**Subsidiary Shares**".

The business of RT Group, taken as a whole, as presently conducted (disregarding the Transaction contemplated by this Agreement or any intentions of the Purchaser), is hereinafter referred to as the "**Business**".

- D. WHEREAS, the Seller 1 has granted to the Company an individual loan in the amount, including interest accrued thereon, outstanding as of today as shown in the overview attached hereto as Annex
-

D (the "**Shareholder Loan**"). Except as listed in Annex D, the Shareholder Loan is unencumbered and free and clear of any Third Party rights.

E. WHEREAS, the Sellers intend to sell all of the Shares and the Seller 1 additionally intends to sell all of its receivables from its Shareholder Loan and, having carried out an intensive due diligence review, the Purchasers intend to acquire the Shares and the receivables from the Shareholder Loan pursuant to the terms and conditions as set out in this Agreement (the "**Transaction**").

Now, THEREFORE the Parties agree as follows:

Section 1 Definitions/Interpretation

1.1 Definitions

Capitalized terms, whenever used herein, shall have the following meanings for all purposes of this Agreement:

"**Agreement**" shall mean this share purchase and transfer agreement.

"**AktG**" shall mean the German Stock Corporation Act (*Aktiengesetz*).

"**Authority**" means any public administration body (*Behörde*), whether national, state, municipal or other, within the meaning of Section 1 para. 4 of the German Federal Public Administration Code (*Verwaltungsverfahrensgesetz*) or under the Laws of any other jurisdiction.

"**BGB**" shall mean the German Civil Code.

"**Business Day(s)**" means any day other than a Saturday, Sunday or other day on which commercial banks in Frankfurt am Main, Germany, and Westford (Massachusetts), USA are required by Law, executive order, or any other action of any Authority to close.

"**Economic Interest**" shall mean the percentage Purchase Price allocations set forth in Annex 1.1 next to each of the Sellers names.

"**Event**": an event, act, transaction or omission, including, without limitation, a receipt or accrual of income or gains, distribution, failure to distribute, acquisition, disposal, transfer, payment, loan or advance.

"**HGB**" shall mean the German Commercial Code (*Handelsgesetzbuch*).

"**IT Systems**" shall mean all computer hardware (including network and telecommunications equipment and internet related information technology) and software (including preparatory materials, user manuals and related documentation) owned or used by the RT Group.

"**Law(s)**" shall mean any federal, state, local, municipal, foreign, international, multi-national or other constitution, law, statute, treaty, rule, regulation, ordinance, code, administrative regulation (*Verwaltungsvorschrift*), binding case law or principle of law.

"**Owned IT Systems**" shall mean such of the IT Systems which are owned by any Group Company.

"**Person**" means any individual, firm, corporation, partnership, trust, incorporated or unincorporated association, joint venture, joint stock company, limited liability company, governmental (including any Authority) or quasi-governmental body or other entity or organization of any kind, and shall include any successor of such entity or organization.

"**Pre-Effective Date Period**" shall mean any time period ending on or before the Effective Economic Date.

"**Pre-Effective Date Tax**" (i) shall mean any Tax imposed for the Pre-Effective Date Period and (ii) shall be - if and to the extent attributable to a business/fiscal year starting prior to and ending after the Effective Economic Date - calculated as if the respective business/fiscal year and the tax assessment period cease at the end of the Effective Economic Date.

"**Pre-Effective Date Tax Refund**" (i) shall mean any Tax Refund of a Tax related to the Pre-Effective Date Period and (ii) shall be - if and to the extent attributable to a business/fiscal year starting prior to and ending after the Effective Economic Date - calculated as if the respective business/fiscal year and the tax assessment period cease at the end of the Effective Economic Date.

"**Purchaser's Knowledge**" shall mean the actual knowledge (*positive Kenntnis*) of the Share Purchaser (heretofore and hereinafter referred to as the "**Purchaser's Knowledge**") as at the relevant time.

"**Relevant Tax Proceedings**" shall mean any Tax Proceeding (i) relating to Pre-Effective Date Taxes or Pre-Effective Date Periods or (ii) which has or could have an impact on Taxes or Tax Assets of any party of this Agreement or their direct or indirect shareholders or on any rights or obligations of any party of this Agreement under Section 8.

"**Tax**" shall mean any form of taxation, levy, duty, charge, contribution, deduction, withholding or impost of whatever nature (including any related fine, penalty, surcharge or interest) imposed, collected or assessed by, or payable to a Taxing Authority and including but not limited to (i) tax (*Steuer*) and incidental tax charges (*steuerliche Nebenleistungen*) within the meaning of Section 3 German General Tax Code (*Abgabenordnung*) (excluding, for the avoidance of doubt, deferred taxes as shown in relevant local GAAP or international financial statements), (ii) social security

contributions (*Sozialversicherungsbeiträge*) and (iii) secondary liabilities (*Haftungsschulden*) for any of the items referred to in clause (i) and (ii), and in each case any equivalent tax under the laws of any other jurisdiction.

"Tax Asset" shall mean any Tax Refund, Tax credit, any Tax item that can be carried forward or back as Tax loss to reduce any Tax, or any other kind of Tax advantage.

"Tax Refund" shall mean any received repayment of any Tax (including - but not limited to - by way of set-off, deduction or consumption), any claim for a Tax credit, and any claim for repayment of any Tax assessed.

"Tax Return" shall mean any return, declaration or similar document relating to any Tax and to be submitted to any Taxing Authority, including any schedule or attachment thereto.

"Taxing Authority" shall mean any competent governmental authority or public body in charge of imposing any Tax.

"Tax Proceedings" shall mean any administrative or judicial proceeding or action relating to Taxes (including, but not limited to, Tax assessments, Tax audits, court proceedings or decisions, meeting with Taxing Authorities, correspondence by letter, fax message or email with any Taxing Authority).

"Third Party" means any Person other than a party to this Agreement or a Group Company.

"VAT" means (i) any tax imposed in compliance with the Council Directive of 28 November 2006 on the common system of value added tax (EC Directive 2006/112) and (ii) any other tax of a similar nature, whether imposed in a member state of the European Union in substitution for, or levied in addition to, such tax referred to in (i) above, or imposed elsewhere.

1.2 Other Capitalized Terms

The following terms shall have the meanings specified in the indicated Section of this Agreement:

"2014 Accounts Date"	shall have the meaning as set forth in Section 6.4a)
"2015 Accounts Date"	shall have the meaning as set forth in Section 6.4a)
"Accounts Date"	shall have the meaning as set forth in Section 6.4a)
"Additional Documents"	shall have the meaning as set forth in Section 7.4
"Affiliates"	shall have the meaning as set forth in Section 6.12a)
"Breach"	shall have the meaning as set forth in Section 7.1
"Business"	shall have the meaning as set forth in the Recitals
"Closing"	shall have the meaning as set forth in Section 4.2
"Closing Actions"	shall have the meaning as set forth in Section 11.1

"Closing Date"	shall mean the date hereof
"Company"	shall have the meaning as set forth in the Recitals
"Confidential Information"	<p>all information, know-how and techniques (whether or not confidential) which in any way wholly or partially relate to the Business including information, know-how and techniques held in any form (including that comprised in or derived from drawings, data, formulae, specifications, component lists, instructions, manuals, brochures, catalogues and process descriptions) relating to:</p> <p>(a)the manufacture or production of goods or the provision of services by, or in relation to, the RT Group;</p> <p>(b)the sale or marketing of any goods or services by, or in relation to, the RT Group, including customer names and lists and any other details of customers, sales targets, sales statistics, market share statistics, prices, market research reports and surveys and advertising or other promotional materials;</p> <p>(c)the operations, management, administration or financial affairs of the RT Group, including business plans, information relating to future projects, business development or planning, commercial relationships and negotiations and information relating to litigation or legal advice;</p> <p>(d)the selection, procurement, construction, installation or use of any raw material, plant, machinery or other equipment or processes by, or in relation to, the RT Group;</p> <p>(e)the supply, storage, assembly or packing of raw materials, components or partly manufactured or finished products by, or in relation to, the RT Group;</p> <p>(f)quality control, testing or certification by, or in relation to, the RT Group; or</p> <p>(g)the rectification, repair or service of products, plant, machinery or other equipment by, or in relation to, the RT Group.</p>
"Consolidated Financial Statements"	shall have the meaning as set forth in Section 6.4b)
"Data Room"	shall have the meaning as set forth in Section 7.4
"Deed"	shall mean this deed recorded by the Notary
"Deductible"	shall have the meaning as set forth in Section 7.5b)
"De Minimis Amount"	shall have the meaning as set forth in Section 7.5a)

"Effective Economic Date"		shall have the meaning as set forth in Section 4.1
"Environmental Laws"		shall have the meaning as set forth in Section 6.6e)
"Event Tax"		shall have the meaning as set forth in Section 8.1a)
"Existing Bank Debt"		shall have the meaning as set forth in Section 5.5
"Financial Statements"		shall have the meaning as set forth in Section 6.4a)
"French Litigation"		shall have the meaning as set forth in Section 5.6
"Fundamental Guarantee"		shall have the meaning as set forth in Section 7.6
"Group Companies"		shall have the meaning as set forth in the Recitals
"IP Licences Out"		shall have the meaning as set forth in Section 6.7g)
"IP Rights"		shall have the meaning as set forth in Section 6.7a)
"Key Employee", "Key Employees"		shall have the meaning as set forth in Section 6.9b)
"Leakage"		shall have the meaning as set forth in Section 6.12a)
"Leased Property"	Real	shall have the meaning as set forth in Section 6.6b)
"Liability Exclusion"		shall have the meaning as set forth in Section 7.6
"Litigation Difference"		shall have the meaning as set forth in Section 5.6
"Loan Purchaser"		shall mean Kadant Cayman Ltd.
"Loan Price"	Purchase	shall have the meaning as set forth in Section 5.2
"Locked Financial Statements"	Box	shall have the meaning as set forth in Section 6.4b)
"Losses"		shall have the meaning as set forth in Section 7.2b)
"Material Agreements"		shall have the meaning as set forth in Section 6.5g)
"Material IP Licences"		shall have the meaning as set forth in Section 6.7h)
"Notary"		shall mean Mr. Klaus Beine, the notary who recorded this Deed or his representative (<i>Notarvertreter</i>)
"Owned Property"	Real	shall have the meaning as set forth in Section 6.6a)
"Party", "Parties"		shall mean the Sellers and the Purchasers

"Permitted Leakage"	shall have the meaning as set forth in Section 6.12b)
"Persons close to the Sellers"	shall have the meaning as set forth in Section 6.5b)
"Policies"	shall have the meaning as set forth in Section 6.10a)
"Purchasers"	shall mean the Share Purchaser and the Loan Purchaser
"Purchase Price"	shall have the meaning as set forth in Section 5.2
"Real Property"	shall have the meaning as set forth in Section 6.6b)
"Reference Deed"	notarial deed of the Notary (roll of deeds No. 98/2016)
"RT Group"	shall have the meaning as set forth in the Recitals
"Seller 1"	shall mean GEP SPV Limited
"Seller 2"	shall mean Franzotto Hornung
"Seller 3"	shall mean Stuart Craig Heley
"Sellers"	shall mean the Seller 1, the Seller 2 and the Seller 3 collectively
"Seller 1 Shares"	shall have the meaning as set forth in Recitals
"Seller 2 Share"	shall have the meaning as set forth in Recitals
"Seller 3 Shares"	shall have the meaning as set forth in Recitals
"Sellers' Knowledge"	shall have the meaning as set forth in Section 6.15
"Shareholder Loan"	shall have the meaning as set forth in the Recitals
"Share Purchaser"	shall mean Kadant Johnson Deutschland GmbH
"Shares"	shall have the meaning as set forth in the Recitals
"Subsidiaries"	shall have the meaning as set forth in the Recitals
"Subsidiary Shares"	shall have the meaning as set forth in the Recitals
"Third Party Claim"	shall have the meaning as set forth in the Section 7.9b)
"Transaction"	shall have the meaning as set forth in the Recitals
"Warranty Claim(s)"	shall have the meaning as set forth in Section 7.6
"W&I Insurance"	shall have the meaning as set forth in Section 7.6

1.3 Interpretation

Terms to which a German version has been added shall be interpreted throughout this Agreement in the meaning assigned to them by the German version. Unless the express context otherwise requires:

- a) the words "**hereof**", "**herein**", and "**hereunder**" and words of similar import, when used in this Agreement, shall refer to this Agreement as a whole and not to any particular provision of this Agreement; terms defined in the singular shall have a comparable meaning when used in the plural, and vice versa;
- b) references herein to a specific Section, Subsection, Recital, Schedule, Annexes or Annex shall refer, respectively, to Sections, Subsections, Recitals, Schedules, Annexes or Annex of this Agreement;
- c) wherever the word "**include**", "**includes**", or "**including**" is used in this Agreement, it shall be deemed to be followed by the words "**without limitation**";
- d) references herein to a Person in a particular capacity or capacities shall exclude such Person in any other capacity;
- e) with respect to the determination of any period of time, the word "**from**" means "**from and including**" and the words "**to**" and "**until**" each means "**to and including**";
- f) references herein to any Law, shall be deemed to refer to such Law as amended, modified, codified, re-enacted, supplemented or superseded in whole or in part, and in effect from time to time and also to all rules and regulations contained thereunder, and references to any Law in this Agreement shall be deemed to refer to any equivalent in any other relevant jurisdiction; and
- g) references to any:
 - (i) Event includes an Event deemed to have occurred for the purposes of any Tax; and
 - (ii) Event occurring or Tax liability imposed or arising on or before the Effective Economic Date or Closing includes an Event or liability which is deemed for the purposes of any Tax to have occurred, or to have been imposed or arising on or before the Effective Economic Date or Closing (as appropriate).

1.4 Each of the following is regarded as an Event which has occurred outside of the relevant Group Company's ordinary course of business:

- a) anything within the concept of "Leakage" as defined at Section 6.12a), except for any "Permitted Leakage" as defined in Section 6.12b); or
 - b) any Event giving rise to a Tax liability with the sole purpose being the avoidance, reduction or deferral of a liability to Tax without justifiable economic reason.
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Section 2 Sale and Transfer

2.1 Sale of Shares

Each Seller separately and individually as individual obligor (*Einzelschuldner*) hereby sells (*verkaufen*) upon the terms and subject to the conditions of this Agreement the Shares to the Share Purchaser as follows:

The Seller 1 sells to the Share Purchaser the Seller 1 Shares, the Seller 2 sells to the Share Purchaser the Seller 2 Share and the Seller 3 sells to the Share Purchaser the Seller 3 Shares. The Share Purchaser hereby accepts such sales of the Shares.

2.2 Transfer of Shares

Provided that the Purchase Price as defined in Section 5.2 is paid pursuant to Section 5.4, each Seller separately and individually as individual obligor (*Einzelschuldner*) hereby assigns and transfers the Shares to the Share Purchaser as follows:

The Seller 1 assigns and transfers to the Share Purchaser the Seller 1 Shares, the Seller 2 assigns and transfers to the Share Purchaser the Seller 2 Share and the Seller 3 assigns and transfers to the Share Purchaser the Seller 3 Shares. The Share Purchaser hereby accepts such assignments and transfers of the Shares.

2.3 Ancillary Rights

Each sale and assignment of the Shares shall include all ancillary rights and benefits arising from those Shares, including voting rights, subscription rights and dividend rights (*Gewinnbezugsrechte*) to all profits not distributed to the Sellers as of the Effective Economic Date.

2.4 Sale and Transfer of receivables from the Shareholder Loan

The Seller 1 hereby sells (*verkauft*) at the terms and conditions of this Agreement its receivables from the Shareholder Loan as set forth in Annex D including all ancillary rights and all interest accrued and to accrue until the Closing Date, to the Loan Purchaser and the Loan Purchaser accepts such sale of the receivables from the Shareholder Loan.

Provided that the Purchase Price as defined in Section 5.2 is paid pursuant to Section 5.4, the Seller 1 hereby assigns its receivables from the Shareholder Loan as described above to the Loan Purchaser, who hereby accepts the assignment.

Section 3 Consents and Waivers

3.1 Consents and Waivers with respect to the Shares

Each Seller individually hereby waives all purchase, pre-emption, sale, transfer and similar rights it may have vis-à-vis any of the other Sellers with regard to the Shares. The Sellers hereby hold an extraordinary shareholders meeting of the Company and unanimously resolve to (i) grant their consent to the sale and transfer of the Shares pursuant to the terms and conditions of this Agreement as among others required by Section 13 of the articles of association of the Company and (ii) approve the entering into (x) a loan agreement dated 1 April 2016 between the Company and the Share Purchaser by which the Share Purchaser granted to the Company a loan amounting to EUR 2,550,000 and (y) a respective repayment undertaking.

3.2 Consents and Waivers with respect to the Shareholder Loan

Further, the Seller 1 and the Company hereby expressly grant their consents to the sale and transfer of the receivables from the Shareholder Loan (including interest accrued and to accrue until the Closing Date) and the Seller 1 and the Company hereby waive their termination rights in accordance with Section 4 c) of the shareholder loan agreement dated 7 May 2015.

3.3 By written declarations, copies of which are attached hereto as Annex 3.3, the Wives of Seller 2 and Seller 3 agreed in accordance with section 1365 BGB to this Agreement and the sale and transfer of the Seller 2 Share and the sale and transfer of the Seller 3 Shares, respectively.

Section 4 Effective Economic Date / Closing Date

4.1 Effective economic date within the meaning of this Agreement shall be December 31, 2015, 23:59 hours CET (hereinafter referred to as "**Effective Economic Date**").

4.2 The closing, i.e. the execution (*in rem*) of the Transaction contemplated in this Agreement (the "**Closing**"), shall take place in the offices of the presiding Notary on the date hereof (the "**Closing Date**").

4.3 For accounting purposes the Closing shall be effective as of 00:01 hours CET on 4 April 2016.

Section 5 Purchase Price

5.1 Purchase Price for the Shares

The purchase price owed by the Share Purchaser for the acquisition of the Shares shall amount to EUR 30,147,800.56 (in words: thirty million one hundred forty seven thousand eight hundred Euros and fifty six cent) (the "**Share Purchase Price**").

5.2 Purchase Price for the receivables from the Shareholder Loan

The purchase price owed by the Loan Purchaser for the acquisition of the receivables arising from the Shareholder Loan shall be equal to the amount of the outstanding Shareholder Loan of EUR 8,695,340.27 (in words: eight million six hundred ninety five thousand three hundred forty Euros and twenty seven cent) as per the Effective Economic Date plus accrued and unpaid interest (6% p.a. accruing on the principal amount of the Shareholder Loan on a daily basis in accordance with the terms of the shareholder loan agreement dated 7 May 2015) from the Effective Economic Date until the Closing Date, such interest amounting to EUR 137,676.22 (in words: one hundred thirty seven thousand six hundred seven six and twenty two cent) , i.e., a total amount of EUR 8,833,016.49 (in words: eight million eight hundred thirty three thousand sixteen Euros and forty nine cent) (such amount herein referred to as the "**Loan Purchase Price**").

The Share Purchase Price and the Loan Purchase Price are hereinafter collectively referred to as the "**Purchase Price**".

5.3 Escrow

To secure certain liabilities of Seller 2 and Seller 3 as set forth in (i) the release and payment agreement pertaining to Seller 2, a draft of which is attached hereto as Annex 11.1 f) and (ii) the release and payment agreement pertaining to Seller 3, a draft of which is attached hereto as Annex 11.1 g), Seller 2 will enter into an escrow agreement a draft of which is attached hereto as Annex 5.3 a) and Seller 3 will enter into an escrow agreement a draft of which is attached hereto as Annex 5.3 b).

5.4 Payments

At the Closing Date the Purchasers shall make the following payments free and clear of costs and charges by wire transfer of immediately available funds:

- a) the Share Purchase Price shall be paid by the Share Purchaser (i) in the amount of EUR 25,484,440.26 (in words: twenty five million four hundred eighty four thousand four hundred forty and twenty six cent) to the joint bank account of the Sellers for the joint benefit of the
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Sellers as set forth in Annex 5.4, (ii) in the amount of EUR 3,341,656.95 (in words: three million three hundred forty one thousand six hundred fifty six and ninety five cent) to the Seller 2 escrow account as set forth in Annex 5.3 a) and (iii) in the amount of EUR 1,321,703.35 (in words: one million three hundred twenty one thousand seven hundred three and thirty five cent) to the Seller 3 escrow account as set forth in Annex 5.3b).

- b) the Loan Purchase Price shall be paid by the Loan Purchaser to the joint bank account of the Sellers for the joint benefit of the Sellers as set forth in Annex 5.4.

To the extent that payments are made to the joint bank account of the Sellers and to the Seller 2 escrow account as set forth in Annex 5.3 a) and the Seller 3 Escrow Account as set forth in Annex 5.3 b) such payments shall have the legal effect of fulfilment (*Erfüllungswirkung*) in respect of the individual claims of the Sellers hereunder.

5.5 Repayment of Existing Bank Debt

The Parties agree that the Company shall repay its existing bank debt summarized in Annex 5.5 (the “**Existing Bank Debt**”) on the Closing Date. Such repayment shall be financed by the Share Purchaser. The payment of the Existing Bank Debt shall be made directly by the Share Purchaser on behalf of the Company to the lenders of the Company or as agreed with the lenders in the amounts shown in Annex 5.5 in the form of a cash collateralization to one or several pledged bank accounts of the Company.

5.6 Post-Closing Adjustment for French Litigation

To the extent that the provisions made in the annual financial statements of Comdec Paal SAS amounting to EUR 145,000 in total with respect to the litigation currently pending and the potential litigation as disclosed in Annex 6.11 a) (the “**French Litigation**”) will be released within 12 months as of the date hereof (the amount of such difference the “**Litigation Difference**”), the Share Purchaser shall make a payment in the amount of the Litigation Difference to the joint bank account of the Sellers or any other bank account designated by the Sellers jointly to the Share Purchaser. If the litigation is not resolved within 12 months as of the date hereof, no further payment shall be owed by the Share Purchaser to the Sellers, regardless of the outcome of this litigation.

5.7 Default Interest

Any payments due under this Agreement shall bear interest from the date following the respective due date to the date of receipt. The interest rate to be used, starting on any date on which a payment is due, shall be 4 % p.a., calculated on the basis of the actual days elapsed and a calendar year of 365 days. The right to claim damages arising from a delay of payment shall remain unaffected.

5.8 Right of set-off or Retention

The Purchasers shall not be entitled to exercise a right of set-off (*Aufrechnung*) or retention (*Zurückbehaltungsrecht*) with respect to their obligations to pay the Purchase Price unless the Purchasers' claim has been determined by a non-appealable final court judgement or has been acknowledged by the Sellers.

Section 6 Sellers' Guarantees

6.1 General

The Sellers hereby guarantee to the Share Purchaser and with respect to Section 6.2 d) Seller 1 hereby guarantees to the Loan Purchaser by way of an independent promise of guarantee pursuant to section 311 para. 1 BGB (*selbständiges Garantieverprechen im Sinne des § 311 Abs. 1 BGB*) within the scope and subject to the requirements and limitations provided in this Section 6 hereof or otherwise in this Agreement that the statements set forth in this Section 6 are complete and correct as of the Closing Date unless explicitly otherwise provided for in this Section 6. The Sellers and the Purchasers agree and explicitly confirm that the guarantees in this Section 6 are not granted, and shall not be qualified and construed as, quality guarantees concerning the object of the purchase (*Garantien für die Beschaffenheit der Sache*) within the meaning of sections 443, 444 BGB, respectively, that section 444 BGB shall not and does not apply to the guarantees contained in this Section 6.

6.2 Title Guarantees

Each Seller makes the following representations only separately, i.e. only with respect to its own sphere and only with respect to those of the Shares and the receivables under the Shareholder Loan which are sold by such Seller under this Agreement. No Seller shall incur any liability whatsoever with respect to the following representations which are made by another Seller under this Section 6.2.

- a) The execution of this Agreement and the consummation of the Transaction contemplated therein will not constitute any breach of any other obligation of the respective Seller.
 - b) Each Seller is the sole and unrestricted owner of the Shares held by it. As of the date hereof and as of the Closing Date the Shares which are being sold by the respective Seller hereunder are duly authorized, validly issued, and except listed in Annex 6.2b) the respective Seller owns the respective Shares, free and clear of any encumbrances (*dingliche Belastungen*) or any agreement, arrangement or obligation to create or give any encumbrances (*dingliche Belastungen*) or other Third Party rights.
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- c) The Shares which are being sold by the respective Seller hereunder are fully paid up either in cash or in kind and have not been repaid (even not in hidden form). There are no pre-emptive rights, options, voting arrangements or other rights of third parties to acquire any Shares.
- d) The statements made in Recital D of this Agreement with respect to the Shareholder Loan are true and correct.
- e) All actions required by each Seller to validly and duly authorise the execution and delivery of, and to exercise its rights and perform its obligations under, this Agreement and each other document required in relation to the Transaction have been duly taken.
- f) Except as provided under Section 3.3, no Seller requires the consent, approval or authority of any other person to enter into or perform its obligations under this Agreement or any other document required in relation to the Transaction.

6.3 Status of the Group Companies

- a) The Group Companies have been duly established and are validly existing under the laws of their respective jurisdiction. The Subsidiary Shares are held by the Company or another Group Company as shown in Annex C, have been validly issued and are free from encumbrances or other rights of Third Parties other than those disclosed in Annex 6.3a). There is no agreement, arrangement or obligation (i) to create or give an encumbrance, in relation to the Subsidiary Shares or unissued shares in the capital of a Group Company or (ii) under which any Person is entitled to the issuance of new shares in any Group Company (e.g. stock options).
 - b) Annex 6.3b) contains true and correct copies and, in case of Comdec Paal SAS and Amadeo Farell S.A.U., a true and correct list of the current articles of association (or equivalent documents) of the Group Companies. The Sellers have delivered to the Purchaser true copies of the current articles of association (or equivalent documents) of Comdec Paal SAS and Amadeo Farell S.A.U. prior to the date hereof, and no action has been taken to amend any of them. The Group Companies do not hold any other direct or indirect participation in any other corporation, partnership or other legal entity and are not obliged to acquire further participations or to divest of any of the Subsidiary Shares. The excerpts of the commercial register or a similar register with respect to the Group Companies attached hereto as part of Annex 6.3b) truly and entirely reflect the current corporate status of the Group Companies. Any shareholder resolutions, other documents and facts required by applicable law to be filed with the competent commercial or similar register have been completely and duly filed. No shareholder resolutions, other documents or facts that are to be registered with the respective commercial register or a similar register with respect to the Group Companies' status are still pending regarding their registration.
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Each material minute book and accounting record each Group Company is required to keep has been properly kept and contains to the Sellers' Knowledge a true, complete, accurate and up-to-date record of all material matters which it is required to record.

- c) The Subsidiary Shares are fully paid in, either in cash or in kind and have not been repaid. There are no pre-emptive rights, options, voting arrangements or other rights of third parties to acquire any Subsidiary Shares. There are no trust agreements, sub-participations or other agreements with Third Parties with respect to the Subsidiary Shares.
- d) Except as listed in [Annex 6.3d](#)) none of the Group Companies is a party to an enterprise agreement in the sense of section 291 et. seqq. AktG.
- e) Except for the advisory board of the Company, which members are listed in [Annex 6.3e](#)), the Group Companies have no supervisory or advisory board, shareholder committee or similar supervisory body other than those stated in the Group Companies' articles of association.
- f) Except as listed in [Annex 6.3f](#)), none of the Group Companies has any branch establishments.
- g) To the Sellers' Knowledge, except for the power of attorney to sign this Agreement or as listed in [Annex 6.3g](#)), no Group Company has given a power of attorney or other authority to a Third Party by which a Person may enter into an agreement, arrangement or obligation on any Group Company's behalf.

6.4 Financial Status of the Company

- a) The audited financial statements of the Group Companies as per 31 December 2014 (the "**2014 Accounts Date**") and the audited financial statements of the Company, Paal GmbH, Dicom Limited and J&H Rentals Limited as per 31 December 2015 (the "**2015 Accounts Date**", the 2014 Accounts Date and the 2015 Accounts Date each an "**Accounts Date**") attached hereto as [Annex 6.4a](#)) (the "**Financial Statements**") have been prepared in accordance with the accounting rules, on a basis consistent with past practice, and present a true and fair view of the assets and liabilities, financial position and earnings position of the respective Group Companies (*ein den tatsächlichen Verhältnissen entsprechendes Bild der Vermögens-, Finanz- und Ertragslage*), subject to and in accordance with German GAAP or any other respective local GAAP as at each Accounts Date.
 - b) The audited consolidated financial statements of the Company as per the 2014 Accounts Date and as per the 2015 Accounts Date attached hereto as [Annex 6.4b](#)) (the "**Consolidated Financial Statements**" or with respect to the Consolidated Financial Statements as of the 2015 Accounts Date the "**Locked Box Financial Statements**") have been prepared in accordance with the accounting rules, on a basis consistent with past practice, and present a true and fair view of the assets and liabilities, financial position
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- and earnings position of the Company (*ein den tatsächlichen Verhältnissen entsprechendes Bild der Vermögens-, Finanz- und Ertragslage*), subject to and in accordance with German GAAP as at each Accounts Date.
- c) No bankruptcy, insolvency or judicial composition proceedings concerning any of the Group Companies have been applied for according to any applicable bankruptcy or insolvency laws, and to the Sellers' Knowledge, with respect to the Group Companies, no circumstances exist which would require an application for any bankruptcy, insolvency or judicial composition proceedings according to any applicable bankruptcy or insolvency laws.
 - d) The material assets included in the Locked Box Financial Statements are, to the Sellers Knowledge, as of December 31, 2015, legally and beneficially owned solely by or are legally in the possession or under the control of the Group Companies and are not encumbered with any encumbrances in favour of any Third Party or a Seller or any Person close to a Seller, except for:
 - (i) contractual and statutory retention of title rights, liens, pledges or other security rights (*gesetzliche und vertragliche Pfandrechte*) created in the ordinary course of business;
 - (ii) security rights of any kind granted to banks and other lenders in respect of financial debt as listed in Annex 6.4d)(ii) except for the pledge agreement and the guarantee agreement provided in connection with the cash collateralization referred to in Section 5.5 above; or
 - (iii) encumbrances (other than security rights as covered by Section 6.4d)(ii) above) which do not materially impair the Group Companies' ability to conduct its Business as presently conducted, and as listed in Annex 6.4d)(iii).
 - e) Except for the loan granted by the Share Purchaser to the Company as referred to in Section 3.1 above, the Group Companies have only received, granted and/or prolonged loans (including loans granted to employees of Dicom Limited not exceeding EUR 5,000 in total and bank guarantees) based on the credit and loan agreements listed or described in Annex 6.4e). No other loan agreements or borrowing of any nature except for (i) payment terms agreed with customers and suppliers in the ordinary course of business by any Group Company or (ii) intercompany trading receivables exist. To the Sellers' Knowledge, no event has occurred or has been alleged in writing which constitutes an event of default under any of the agreements listed in Annex 6.4e).
 - f) Annex 6.4f) contains a complete list of hedging contracts as of the Closing Date.
 - g) Except as disclosed in Annex 6.4g), no Group Company issued or prolonged any guarantees, sureties (*Bürgschaft*), indemnifications (*Freistellung*) or other agreements to secure Third Party financial obligations that are still in place as at the date hereof.
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- h) No Group Company is liable to repay any grant or subsidy made to it.

6.5 Business of the Group Companies

- a) The Group Companies possess the necessary assets to continue operations and have unrestricted rights of use in respect of such assets. Considering their age, to the Sellers' Knowledge, all machinery, equipment and facilities are in operable condition whereby fair wear and tear is permitted. To the Sellers' Knowledge, within the last 3 years, all necessary maintenance work with respect to any equipment or machinery which is material for the Business has been carried out on a regular basis. To the Sellers' Knowledge the maintenance intervals prescribed by the manufactures of equipment or machinery material for the Business have been adhered to.
- b) Save as set forth in Annex 6.5b), there are no business relations between the Group Companies on the one hand, and the Sellers or any Person close to the Sellers, on the other hand. "**Persons close to the Sellers**" shall mean relatives within the meaning of section 15 German General Tax Code (*Abgabenordnung*) and closely related persons within the meaning of section 138 German Insolvency Code (*InsO*).
- c) Annex 6.5c) contains a list of the ten largest customers and suppliers of the Group Companies (taken as a whole) for the business year 2015.
- d) Since the 2015 Accounts Date until the date hereof, except as set forth in Annex 6.5d), the Business of the Group Companies has been conducted in the ordinary course of business.

No dividends and/or other direct or indirect distributions or payments to the Sellers have been declared, made or committed to be made by any Group Company; for the avoidance of doubt: payments to the advisory board members and payments to Seller 2 and Seller 3 under their managing director service agreements do not constitute dividends and/or other direct or indirect distributions or payments to the Sellers as described above. In particular none of the Group Companies, from the 2015 Accounts Date until the Closing Date, has unless disclosed in Annex 6.5d):

- (i) commenced any new branches of business or made any investment in any undertaking other than the Group Companies;
 - (ii) amended the articles of association with respect to the registered share capital or granted or issued any share capital or similar interest to any undertaking other than the Group Companies,
 - (iii) made any repayments of reserves or dividends;
 - (iv) entered into any enterprise agreement in the meaning of section 291 et seq. AktG;
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- (v) made or undertaken to make any capital expenditures with respect to fixed assets which in the individual case exceed an amount of EUR 40,000 (in words forty thousand Euros) or in aggregate exceed an amount of EUR 100,000 (in words: one hundred thousand Euros);
 - (vi) sold or entered into any agreement to sell any fixed assets or group of fixed assets which in the individual case exceed the amount of EUR 20,000 (in words: twenty thousand Euros) or in aggregate exceed an amount of EUR 50,000 (in words: fifty thousand Euros);
 - (vii) has agreed to take any of the measures listed in this Section 6.5d)(i) through (vi).
- e) The Group Companies hold all permits and licenses which are required under applicable public laws (*öffentlichem Recht*) in order to conduct their respective business as presently conducted and which are material for the Business.
- f) To the Sellers' Knowledge the Group Companies conduct the Business in compliance with all provisions of such permits and licenses excluding for this purpose any individual non-compliance (but not non-compliances of a similar nature) which would result in costs of less than EUR 15,000 (in words: fifteen thousand Euros) or fines of less than EUR 5,000 (in words: five thousand Euros) and, to the Sellers' Knowledge, there are no circumstances which could cause any such permits and licenses to be suspended, cancelled, revoked or not renewed, in whole or in part.
- g) Annex 6.5g contains a list of agreements to which any of the Group Companies is a party, the main obligations of which (*Hauptleistungspflichten*) have not yet been completely fulfilled and which fulfil any of the following conditions (hereinafter referred to as the "**Material Agreements**"):
- (i) agreements relating to the acquisition or sale of interests in other companies, real estate, businesses or fixed assets providing, in each case, for a consideration of EUR 50,000 (in words: fifty thousand Euros) or more;
 - (ii) loan agreements, bonds, notes or any other instruments of debt involving any Third Party and, individually, exceeding an amount of EUR 100,000 (in words: one hundred thousand Euros);
 - (iii) framework agreements with suppliers with an annual purchase volume of more than EUR 250,000 (in words: two hundred fifty thousand Euros) and machinery orders by customers in the amount of more than EUR 250,000 (in words: two hundred fifty thousand Euros) in each case.
 - (iv) agreements under which any Group Company is obligated to make payments in excess of EUR 125,000 (in words: one hundred twenty five thousand Euros) p.a. after the signature of this Agreement and which cannot be terminated by giving six months' notice to the end of the calendar year or less;
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- (v) agreements providing for non-compete obligations on the part of the Group Companies and all exclusive supply or sole source agreements;
- (vi) agreements providing for termination rights in case of a change of control of the Company;
- (vii) agreements for a fixed term of more than twelve months or having a notice period of more than six months to the end of the calendar year except for agreements with respect to (x) office and IT equipment and (y) company vehicles;
- (viii) agreements entered into otherwise than in the ordinary course of business or other than at arm's length basis;
- (ix) agreements or arrangements whereby a Group Company is a member of a joint venture, consortium, partnership or incorporated or unincorporated association (other than a bona fide trade association);
- (x) distributorship, agency, franchise or external management agreements (*Betriebsführungsverträge*) or arrangements; and
- (xi) agreements which involve the payment by a Group Company of any commission or finder's fee in relation to the transaction contemplated herein.

All existing Material Agreements, to the extent not already included in any other lists attached to this Agreement, are listed in Annex 6.5g. True, complete and accurate details of each Material Agreement are included in the Data Room or in the Additional Documents.

The relevant Group Companies have not received any written notice of termination of, or material breach or default under, any of the Material Agreements. No Material Agreement is subject to any pending (*rechtshängig*) dispute nor are there, to the Seller's Knowledge, any circumstances existing which might give rise to any dispute or claim arising from a breach or default.

- h) To the Sellers' Knowledge, during the 12 months ending on the date of this Agreement no substantial customer or supplier of a Group Company has:
 - (i) stopped, or indicated in writing an intention to stop, trading with or supplying a Group Company; or
 - (ii) changed, or indicated in writing an intention to change, substantially the terms on which it is prepared to trade with or supply a Group Company (other than normal price and quota changes).
 - i) To the Sellers' Knowledge, there are no written claims against any Group Company in respect of any defects in quality, delays in delivery, deficiencies of design or performance or otherwise relating to liability for, or obligations to take-back, maintain or otherwise rectify, goods or services supplied by a Group Company that are still outstanding and no such claims have been threatened in writing.
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6.6 Real Property and Environmental

- a) The Group Companies do not own any real estate (in the sense of land or buildings) other than such shown in the list attached hereto as Annex 6.6a) (the "**Owned Real Property**"). The list correctly states for each piece of Owned Real Property the location, applicable land register or other identification data, size, use, type of legal title, and encumbrances. Except as disclosed in Annex 6.6a) the Owned Real Property is free of any charges and encumbrances.
 - b) Annex 6.6b) contains a list of real property leased or rented by the Group Companies from Third Parties (the "**Leased Real Property**"; the Owned Real Property and the Leased Real Property are hereinafter collectively referred to as the "**Real Property**"). With regard to the lease agreements listed in Annex 6.6b), none of the landlords has given or, to the Sellers' Knowledge, threatened to give notice of termination or withdrawal in writing.
 - c) The relevant Group Company has performed or complied with all material obligations and requirements under the lease agreements for the Leased Real Property.
 - d) To the Sellers' Knowledge each building or other structure on or forming part of the Real Property is in good and substantial repair and condition and fit for its current use.
 - e) To the Sellers' Knowledge and unless disclosed in the environmental report by ERM dated 31 August 2015 which has been disclosed in the Data Room, each Group Company has in the last five years complied with all environmental Laws, judgements or orders (collectively "**Environmental Laws**") applicable to any such Group Company or the Business except for failures to comply that would not have an adverse effect to the Business of EUR 50,000 or more. None of the Group Companies has received in writing a report by any Authority with respect to a violation or potential violation of any Environmental Laws.
 - f) As of the date hereof, there are no pending (*rechtshängig*) administrative (*verwaltungsrechtliche*-), criminal (*strafrechtliche*-) or civil (*zivilrechtliche*-) court proceedings regarding environmental issues or Environmental Laws against or concerning any of the Group Companies or any person for whose acts or defaults a Group Company may be vicariously liable and there have been no such proceedings in the last three years. To the Sellers' Knowledge, no Authority has instituted or threatened in writing to institute any environmental measures of whatsoever kind against any of the Group Companies, which are still pending, nor have the Group Companies received in writing any environment-related inquiries, notifications of potential environmental or similar risks from any Authority which are still pending. To the Sellers' Knowledge, there are no circumstances that would lead to any such proceedings against any of the Group Companies or any person for whose acts or defaults a Group Company may be vicariously liable or that would lead to the obligation to remove any contamination on the Real Property.
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- g) The Group Companies have not entered into any agreements under public or private law, regarding the treatment or removal of any damage to the environment that are still pending and are not in the process of negotiating any such agreements.

6.7 Intellectual Property Rights

- a) Annex 6.7a contains a complete list of registered intellectual property rights owned by the Group Companies, including, but not limited to, patents, utility models, trademarks, design rights and domain names (hereinafter referred to as the "**IP Rights**").
 - b) Unless otherwise shown in Annex 6.7b the Group Companies own or have licences for the intellectual property rights and rights in software and data bases that are required for the on-going Business.
 - c) The IP Rights are unless otherwise shown in Annex 6.7c:
 - (i) valid, subsisting and enforceable;
 - (ii) not the subject of any actual, pending or threatened in writing legal proceedings, claim, opposition, challenge or attack from any person in relation to its validity, use or ownership and, to the Sellers' Knowledge, no such circumstances exist which might give rise to such legal proceedings, claims, oppositions, challenges or attacks;
 - (iii) except for the IP Licences Out, used exclusively by the RT Group and legally and beneficially owned by the RT Group alone, free from any licence (compulsory or otherwise), sub-licence, encumbrance or any other Third Party rights; and
 - (iv) not the subject to any written moral rights assertion at any time prior to the date of this Agreement.
 - d) All fees necessary to maintain the IP Rights have been paid, all necessary renewal applications have been filed and all other steps necessary for their maintenance have been taken.
 - e) To the Sellers' Knowledge no Third Party is infringing the IP Rights.
 - f) To the Sellers' Knowledge the Group Companies do not infringe any IP Rights of Third Parties.
 - g) The Group Companies have not granted any licenses with respect to the IP Rights to Third Parties, except as set out in Annex 6.7g (the "**IP Licences Out**").
 - h) Copies of all material licences of IP Rights granted to any Group Company by Third Parties and all material IP Licences Out (together "**Material IP Licences**") are in the Data Room. In relation to the Material IP Licences:
 - (i) To the Sellers' Knowledge, no Group Company is, or has in the last three years been, in breach of any Material IP Licence and to the Sellers' Knowledge no other party to a Material IP Licence is in breach of such Material IP Licence;
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- (ii) to the Sellers' Knowledge there is no fact or matter that would permit termination of any such Material IP Licence unless in accordance with its terms;
- (iii) no notice to terminate any such Material IP Licences has been given or threatened in writing.

6.8 Information Technology and Data Protection

- a) To the Sellers' Knowledge, the IT Systems are in full operating order and are adequate in all material respects in order to carry out the Business as presently conducted.
- b) To the Sellers' Knowledge, in the period of 12 months immediately preceding the date of this Agreement, no Group Company has suffered any major failures or bugs or breakdowns of any of the IT Systems which have resulted in material or repeated disruption or loss or interruption in or to the use of the IT Systems and which have not been remedied in full.
- c) To the Sellers' Knowledge, except for IT-service providers to the IT Systems and employees of the Group Companies, no Third Parties have access to, share or use of the Owned IT Systems or any part of them.
- d) Except for the Owned IT Systems, the IT Systems are properly licensed, leased or supplied to the Company under Third Party contracts.

6.9 Employees; Employment Matters; Pensions

- a) Annex 6.9 a) contains a complete and accurate list of all shop agreements (*Betriebsvereinbarungen*) (including social plans), benefit, bonus, retention, pension, compensation, profit sharing or other employee benefit plans and collective agreements (*Tarifverträge*) that are applicable to the Group Companies.
 - b) Annex 6.9 b) contains a list of employees of the Group Companies who are entitled to receive in the calendar year 2015 a gross annual base salary (excluding fringe benefits, such as incentives, company car and other benefits or bonus arrangements) in excess of EUR 100,000 (in words: one hundred thousand Euros) as well as of any managing director (*Geschäftsführer*) of the Group Companies (such individuals collectively hereinafter referred to as the "**Key Employees**" and each of them as a "**Key Employee**"). None of the Key Employees has given written notice of termination of his or her employment.
 - c) Unless otherwise shown in Annex 6.9 c), none of the Key Employees has received any binding commitment or benefits or other advantages in the context of the negotiations or transactions contemplated in this Agreement.
 - d) Annex 6.9 d) contains details of the employment relationship (starting date, notice period, base remuneration, contingent compensation, other benefits on an anonymised basis) of each Key Employee of a Group Company as well as of any employee entitled to
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- remuneration at an annual rate of more than EUR 75,000 (in words: seventy five thousand Euros).
- e) To the Sellers' Knowledge, no Group Company owes an amount to a present or former director or employee of a Group Company (or his dependant) other than for accrued remuneration, accrued holiday pay or reimbursement of business expenses.
 - f) No Group Company has made any redundancies other than in the ordinary course of business. There have not been in the past three years prior to the date of this Agreement any notices for mass redundancies.
 - g) Annex 6.9 g) lists all agreements regarding pensions (the "**Disclosed Schemes**") currently applicable to any of the Group Companies respectively its directors and employees or former directors or employees.
 - h) All contributions and other amounts which have fallen due for payment under the Disclosed Scheme have been paid.

6.10 Insurance

- a) Annex 6.10 contains a list of all existing insurance contracts or policies ("**Policies**"). None of the insurance contracts have been terminated in writing. All premiums due on the above policies have been duly paid. As of the Closing Date there are no claims under the insurance policies exceeding EUR 15,000 (in words: fifteen thousand Euros) currently pending.
- b) To the Sellers' Knowledge, each of the Policies is valid and enforceable and is not void or voidable, assuming that such agreements have been duly authorised by the counterparties thereto and that such counterparties have the requisite legal capacity to enter into such agreements.

6.11 Litigation and compliance with laws

- a) Unless listed in Annex 6.11 a), the Group Companies and any person for whose acts or defaults any Group Company may be vicariously liable are not involved or has during the five years ending on the date of this Agreement been involved in any law suit or other proceeding pending (*rechtshängig*) against them before any court, arbitral tribunal or governmental agency involving an amount in dispute (*Streitwert*) in excess of EUR 15,000 (in words: fifteen thousand) or which is of fundamental importance on the Business regardless of the amount in dispute. There are no pending (*rechtshängig*) claims against any of the Group Companies under the Product Liability Act (*Produkthaftungsgesetz*) or similar laws in other jurisdictions concerning products manufactured by any Group Company nor have there been such claims in the five years prior to this Agreement.
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- b) To the Sellers' Knowledge, each Group Company has in the past three years conducted its business in all material respects in accordance with all laws and legal and administrative requirements applicable to them (*zwingendes Recht*) in any jurisdiction, including, without limitation, labour laws, data protection laws and public laws. No Group Company is in violation of any anti-trust laws nor, to Sellers' Knowledge, of anti-bribery laws.
- c) Unless listed in Annex 6.11 c), there have not been in the past three years and there are no governmental, regulatory or administrative investigation, enquiry, process or enforcement proceedings concerning a Group Company (except for regular investigations or reviews within the ordinary course of business), none are pending or threatened in writing, and, to the Sellers' Knowledge, no fact or circumstance exists which is likely to give rise to any such investigation, enquiry or proceedings.

6.12 No Leakage

No Leakage other than a Permitted Leakage (as defined in Section 6.12b)) occurred between the Effective Economic Date and the Closing Date.

- a) Leakage in terms of this Section 6.12 shall mean (hereinafter referred to as "**Leakage**")
 - (i) any payment or declaration of dividend or similar distribution by the Group Companies to the Sellers or any of their affiliates in the meaning of sections 15 et. seq. AktG (other than the Group Companies) (the "**Affiliates**");
 - (ii) the transfer by any Group Company to any Seller or any Person close to the Sellers of any assets (other than minor assets transferred for no less than fair market value);
 - (iii) any assumption of liabilities owed by the Sellers or any Person close to the Sellers by the Group Companies;
 - (iv) the waiver by any Group Company of any amount owed to any Group Company by any Seller or any Person close to the Sellers;
 - (v) any payment by or commitment to pay any fees for or costs of the transactions contemplated in this Agreement, in each case by a Group Company;
 - (vi) any other payment made or agreed to be made by any Group Company to any Seller or any Person close to the Sellers, other than pursuant to (x) existing managing director service agreements, (y) employment agreements or (z) in accordance with past practice to the advisory board members;
 - (vii) any redemptions of capital by the Company;
 - (viii) any loans granted by any Group Company or any interest thereon (other than such loans that are listed on Annex 6.4e) to any Seller or any Person close to the Sellers;
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- (ix) any payment of any management or investor or other directors' fees (each except for payments under existing managing director service agreements) by any Group Company to any Seller;
- (x) any payment of any adviser's fees or finder's fee in connection with the transaction contemplated by this Agreement by any Group Company; or
- (xi) any Tax becoming payable by the Group Companies directly as a consequence of any of the matters set out in this Section 6.12a).

In addition, Leakage in terms of this Section 6.12 shall also mean the entering into any agreement, passing of any resolution or taking of any other measure leading to any of the above after the Closing Date.

- b) Permitted Leakage in terms of this Section 6.12 shall mean the transactions or, as the case may be, payments between the Group Companies and the Sellers or any of their Affiliates (other than the Group Companies) conducted in the ordinary course of business and on an arm's length basis and as disclosed in Annex 6.12b) or as contemplated under this Agreement (hereinafter referred to as "**Permitted Leakage**").

6.13 Tax Guarantees

- a) The Group Companies have
 - (i) filed or submitted all Tax Returns (for the avoidance of doubt including self-declarations) required to be filed or submitted before the Closing Date on a proper and timely basis, taking into account any permitted extension, with any Taxing Authority;
 - (ii) (taking into account any permitted extension) in a timely manner paid all Taxes (which for the avoidance of doubt includes all required deductions from payments) due and payable before the Closing Date;
 - (iii) to the Sellers' Knowledge, maintained complete and accurate records, invoices and other information in relation to Tax that meet all Tax law requirements; and
 - (iv) except as disclosed in Annex 6.13 a) (iv) received no binding information such as advance rulings in accordance with section 89 para. 2-7 of the General Tax Code, binding commitments in accordance with sections 204 et seq. of the General Tax Code or final settlements.
 - b) Except as disclosed in Annex 6.13 b) no Group Company is a member of a group, consolidated group or fiscal unity for Tax purposes.
 - c) To the Seller's Knowledge and except as disclosed in Annex 6.13 c)
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- (i) neither the execution nor completion of this Agreement, nor any other event since the Effective Economic Date, will result in the clawback, withdrawal or disallowance of any deduction or allowance previously given; and
- (ii) no control periods exist with relation to shares held by any of the Group Companies.
- d) Each Group Company has been resident in its jurisdiction of incorporation for Tax purposes and has not been treated as resident in any other jurisdiction for the purposes of any double taxation arrangements nor except as disclosed in Annex 6.13 d) has had a permanent establishment or taxable presence outside its jurisdiction of incorporation.
- e) No Group Company has been involved in any transaction or series of transactions with the sole purpose being the avoidance, reduction or deferral of a Tax liability without justifiable economic reason.
- f) To the Sellers' Knowledge, all documentations necessary for tax purposes, including but not limited to transfer pricing documentations, fully comply with all legal requirements applicable to them.

6.14 No other Guarantees

- a) The Purchasers explicitly acknowledge that they are not relying on any express or implied representations, warranties or guarantees of any nature made by the Sellers except for the guarantees explicitly given by the Sellers under this Agreement.
- b) Without limiting the generality of the foregoing, the Purchasers acknowledge that the Sellers give no representation, warranty or guarantee with respect to
 - (i) any projections, estimates or budgets delivered or made available to the Purchasers of future revenues, future results of operations (or any component thereof), future cash flows or future financial condition (or any component thereof) or the future business operations of the Group Companies; or
 - (ii) any other information or documents made available to the Purchasers or its counsels, accountants or advisors with respect to the Business and the Group Companies, except as expressly set forth in this Agreement; or
 - (iii) any tax matter other than according to Section 6.13 to which exclusively Section 8 shall apply.

6.15 Sellers' Knowledge

In this Agreement, the knowledge of the Sellers (heretofore and hereinafter referred to as the "**Sellers' Knowledge**") shall encompass the actual knowledge (*positive Kenntnis*) and grossly negligent failure to know (*grob fahrlässige Unkenntnis*) of the Sellers as of the Closing Date.

Section 7 Remedies for Breach of Guarantees

7.1 General

Subject to the provisions of this Section 7, if any Sellers' guarantee pursuant to Section 6 of this Agreement is incorrect (a "**Breach**"), the Sellers shall be jointly liable (*Gesamtschuldner*) to put the relevant Purchaser into the position it would have been in if a Breach had not occurred. In the event of a Breach of the guarantees pursuant to Section 6.2 (*title guarantees*) and Section 6.12 (*no leakage*) and Section 8.1a(ii), each Seller shall only be liable severally and individually (*Einzelschuldner*) for its own Breach of the relevant guarantee as set forth in Section 6.2 (*title guarantees*) and Section 6.12 (*no leakage*).

7.2 Indemnification and Losses

- a) Subject to the provisions of this Section 7, if any Breach occurs the Sellers or in case of a Breach of the relevant guarantees as set forth in Section 6.2 (*title guarantees*) or Section 6.12 (*no leakage*), the respective Seller, shall put the Purchasers or, at the sole discretion of the Purchasers any Group Company concerned, into the same position it would be in, if the Breach had not occurred (*Naturalrestitution*). If and to the extent remediation in kind has not been effected by the Sellers or the respective Seller in case of a Breach of the relevant guarantees as set forth in Section 6.2 (*title guarantees*) or Section 6.12 (*no leakage*) within a period of two (2) months after a written request for such remediation has been made by the Purchasers, or if such remediation in kind is not possible (*Unmöglichkeit*), the Purchasers shall be entitled to request from the Sellers or the respective Seller only compensation in cash (*Schadensersatz in Geld*) for any Losses (as defined below) incurred by the Purchasers or any Group Company. Any payments made by a Seller pursuant to this Agreement shall be treated by the Parties as adjustments to the Purchase Price except as otherwise required by applicable law.
 - b) "**Losses**" for purposes of Breaches shall mean the amount of money necessary to restore the damage by non-performance (*kleiner Schadensersatz*), provided that the Purchasers may not assert any claims for indirect and/or consequential damages (*Folgeschäden*), in particular loss of profit (*entgangener Gewinn*) and internal administration costs.
 - c) The legal principles as to the calculation of damages, mitigation of damages and the offsetting of losses by advantages due to the damaging event (*Schadensberechnung, Schadensminderung, Vorteilsausgleichung*) pursuant to sections 249 et seq. BGB shall apply. For the avoidance of doubt, damages in form of value losses shall not be calculated by applying any multiples which have or could have been used to calculate the Share Purchase Price.
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- d) The Parties are in agreement that where one and the same set of facts (*Sachverhalt*) qualifies under more than one provision (e.g. several guarantees and/or a guarantee and an indemnification) entitling the respective Purchaser to a claim or remedy under this Agreement, the respective Purchaser's damage shall not be recoverable more than once.

7.3 Liability Exclusions

- a) The Sellers shall not be liable for any Breach, and the respective Purchaser may not assert claims (*Ansprüche, section 194 BGB*) against the Sellers under any provision of this Agreement if and to the extent that (*soweit*)
 - (i) the amounts asserted by such claim are reflected as liabilities or accruals in the Consolidated Financial Statements as per the 2015 Accounts Date,
 - (ii) the Purchaser or the Group Companies have recovered the amount asserted by the claim from an insurance company (other than the W&I Insurance provider) or have obtained recovery from a Third Party; or
 - (iii) the Purchaser's claim results from or is increased by the passing of, or any change in any Law, statute, ordinance, rule, regulation, or administrative practice of any government, governmental department or Authority after the Closing Date, including (without prejudice to the generality of the foregoing) any increase in the rates of Taxes or any imposition of Taxes or any withdrawal or relief from Taxes not actually (or prospectively) in effect at the Closing Date.

7.4 Disclosed Matters

The Sellers shall not be liable for a Breach if and to the extent that the underlying facts of such Breach have been disclosed to the Purchasers or its representatives or advisers. The documents and matters which were made available and duly disclosed (i) in the electronic data room as of 29 March 2016, 7:51 pm EST (the "**Data Room**"), (ii) the additional documents disclosed outside the Data Room after 29 March 2016, 7:51 pm EST, a list of which is attached hereto as Annex 7.4 (the "**Additional Documents**") (iii) or are included in this Agreement (including the annexes hereto) shall be deemed to have been disclosed by the Sellers.

For evidence purposes, the Sellers and the Purchasers have jointly deposited (i) one CD-ROM containing scans of all information provided as per 29 March 2016, 7:51 pm EST in the Data Room and (ii) one CD-ROM containing scans of the Additional Documents with the Notary. The Notary shall keep in his custody the original CD-ROMs for a period of eighteen months as of the Closing Date and shall provide the Parties with copies thereof upon their request. The notary does not have to meet further safety precautions. After the eighteen months period the notary shall destroy the CD-ROMs.

7.5 De Minimis and Deductible

Except as expressly provided otherwise in this Agreement, the Purchasers may assert claims under this Agreement only if

- a) the value of the claim exceeds an amount of EUR 25,000 (in words: twenty five thousand Euros) (the "**De Minimis Amount**") in each individual case (and for this purpose all claims of whatever amount arising from the same cause or subject matter shall be aggregated); and
- b) the aggregate amount of all such individual claims asserted (which exceed the De Minimis Amount) exceeds an aggregate amount of EUR 200,000 (in words: two hundred thousand Euros) (the "**Deductible**") and in such case for the amount exceeding the deductible (*Freibetrag*),

provided that the De Minimis Amount and the Deductible shall not apply for claims arising from a breach of Section 6.2 (*title guarantees*), Section 6.12 (*no leakage*), Section 6.13 (*tax guarantees*), any claim pursuant to Section 8 (*tax indemnification*) or as provided under Section 7.10.

7.6 Sellers' Liability Exclusion

The Purchasers have entered into a warranties and indemnities insurance with AIG Europe Limited (the "**W&I Insurance**") a copy of which is attached hereto as Annex 7.6. In the event of (i) a claim of any of the Purchasers against any of the Sellers for specific performance or for a compensation in cash for Losses pursuant to Section 7.2 a) which is based on a Breach of any of the guarantees contained in Section 6 and/or (ii) an indemnification claim of any of the Purchasers against any of the Sellers under Section 8 (each of (i) and (ii) a "**Warranty Claim**"), it is hereby acknowledged and agreed by the Purchasers that any liability of the Sellers for payments under any Warranty Claim shall be excluded ("**Liability Exclusion**") in respect of any such Warranty Claim. The Liability Exclusion shall not apply for claims arising from a Breach of Section 6.12 (*no leakage*) and indemnifications pursuant to Section 8.1a)(ii) (the "**Fundamental Guarantee**").

7.7 Liability Cap

The Sellers' aggregate liability vis-à-vis the Purchasers for any Breach of the Fundamental Guarantee or any other obligation or provision contained in this Agreement or in connection with the Transaction shall be limited to the Purchase Price allocated to the respective Seller in accordance with its respective Economic Interest.

7.8 Time Limitation

If not provided otherwise in this Agreement (such other provisions including, but not limited to, Section 7.10 and Section 8.6), the Purchasers' claims under this Agreement shall be time-barred (*verjähren*) on the date which is 18 months from the Closing Date.

7.9 Third Party Claims

With the exception of claims pursuant to Section 8 hereunder

- a) in the event of a claim by the Purchasers under or in connection with this Agreement the respective Purchaser shall
 - (i) without undue delay following the date the Purchaser has actual knowledge (*positive Kenntnis*) of the claim, notify the Sellers thereof and, to the extent then feasible, describe its claim in detail and set forth the estimated amount of such claim and
 - (ii) give the Sellers the reasonable opportunity to provide for a natural restitution, as set forth in Section 7.2, to the extent possible according to the nature of the claim. The respective Purchaser shall duly inform the Sellers of the circumstances giving rise to a claim, will ensure that the Sellers shall have access to information which could be useful in connection with the performance of their rights, the defence against or the enforcement of claims and give the Sellers the opportunity to take part in all meetings and negotiations in this respect. As between the Purchasers and the Sellers, any settlement, waiver or acknowledgement agreed on or declared by the respective Purchaser, the Company or the Subsidiaries shall not constitute proof of the factual or legal situation underlying the settlement, waiver or acknowledgement.
 - b) If an event occurs which might give rise to a claim, suit, action or proceeding (including, for the avoidance of doubt, any audits or examinations by tax, environmental or other Authorities) brought or threatened in writing by a Third Party in respect of which the relevant Purchaser may seek indemnity or claim damages hereunder (a "**Third Party Claim**") the relevant Purchaser will promptly notify the Sellers after the relevant Purchaser becomes aware (*positive Kenntnis*) of it, provided however, that any delay in providing notice shall not limit the liability of the Sellers to indemnify or pay damages to the relevant Purchaser hereunder. However, section 254 BGB remains applicable. At the Sellers' request, the relevant Purchaser shall (i) make available to the Sellers a copy of the documents substantiating the Third Party Claim and, to the extent available to the relevant Purchaser, of all time sensitive documents relating to the Third Party Claim, and (ii) give the Sellers the opportunity to defend at their own expense the relevant Purchaser, the Company or the relevant Subsidiary against such claim in co-operation with the relevant Purchaser.
 - c) The Sellers shall at their sole discretion and at their expense have the right to participate in the defence against any Third Party Claim. If the Sellers choose to participate in the defence, the relevant Purchaser shall use its reasonable efforts in assisting the Sellers in the defence of such Third Party Claim. The Purchaser shall procure that no such Third
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Party Claim is settled without the prior written consent of the Sellers, which consent shall not unreasonably be withheld or delayed; provided, however, that consent shall be deemed to have been given if the Sellers fail to object to the settlement within fifteen (15) Business Days following the receipt of the relevant Purchaser's written notification of its intention to settle a Third Party Claim,

provided that the foregoing obligations of the Purchaser in this Section 7.9 shall be subject always to the freedom of the Purchasers to take or desist from taking such actions as they reasonably consider necessary or desirable to preserve the business continuity and goodwill of the Business.

7.10 W&I Insurance

No provision in this Section 7 shall limit or restrict, or be deemed to limit or restrict, the right of the Purchaser to claim under the W&I Insurance.

7.11 No further indemnification rights

The provisions of Section 6, Section 7 and Section 8 constitute the entirety of the representations and warranties by the Sellers and the agreements between the Sellers and the Purchaser with respect to the consequences of a breach thereof. All other claims of the Purchaser, except for claims for specific performance (*Erfüllungsanspruch*) to transfer title to the Shares or the Shareholder Loan, under this Agreement of any kind in connection with this Agreement and the transaction contemplated herein, whether these claims relate to a subsequent performance (*Nacherfüllung*) pursuant to sections 437 No. 1, 439 BGB, a reduction of the purchase price (*Minderung*) pursuant to sections 437 No. 2, 441 BGB, rescission (*Rücktritt*) pursuant to sections 437 No. 2, 440 BGB or challenge (*Anfechtung*) of this Agreement, to payment of damages or other legal consequences, and regardless of the legal basis including liability for defects, liability for imperfection in title, culpa in contrahendo, frustration of contract (*Wegfall der Geschäftsgrundlage*) pursuant to section 313 BGB and voidability), shall be excluded to the extent legally permissible. The provisions of this Section 7 shall not limit any rights and remedies resulting from fraud or wilful misconduct (*Vorsatz*).

Section 8 Tax Indemnification

8.1 TAX INDEMNITY

- a) Pursuant to the provisions in this Section 8, the Sellers shall
 - (i) indemnify the Share Purchaser from any Pre-Effective Date Tax payable by any of the Group Companies; or
 - (ii) indemnify the Share Purchaser from any Tax liability payable by any of the Group Companies which liability arises in consequence of an Event which has occurred
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since the Effective Economic Date but on or before Closing and outside of the relevant Group Company's ordinary course of business ("**Event Tax**"); for the avoidance of doubt there will be no liability under clause 8 for any income tax under PAYE or employer or employee NIC to the extent to which the same has been dealt with through the payment and release agreement attached as Annex 11.1 g);

b) but only if and to the extent that

- (i) the Pre-Effective Date Tax or Event Tax was not paid prior to or on the Effective Economic Date;
 - (ii) the aggregate amount of Pre-Effective Date Taxes to be paid after the Effective Economic Date and to be indemnified under this Section 8.1 exceeds the aggregate amount of all Tax liabilities and Tax accruals and provisions included - also as part of other accruals and provisions - in the Locked Box Financial Statements;
 - (iii) none of the Group Companies has been paid in full upon a corresponding claim for repayment, reimbursement or indemnification against a Third Party;
 - (iv) the Pre-Effective Date Tax or Event Tax is not the result of any change in Law (including subordinate legislation) or in the generally published interpretation or practice of any Taxing Authority coming into force after the Effective Economic Date;
 - (v) the Pre-Effective Date Tax or Event Tax is not the result of (i) any change in the accounting and taxation principles or practices of any of the Group Companies (including the methods of submitting Tax Returns) introduced after the Closing Date, or (ii) any transaction, action, measure or omission (including the change in the exercise of any Tax election right, the approval or implementation of any reorganization measure or the sale of any asset) initiated or executed by the Share Purchaser or the relevant Group Company after the Closing Date unless this is
 - (i) carried out pursuant to a legally binding obligation of the relevant Group Company incurred on or before Closing;
 - (ii) required by mandatory law or in order to comply with applicable generally accepted accounting principles as in force at Closing;
 - (iii) pursuant to an obligation imposed by any Law or requirement having the force of law;
 - (iv) carried out pursuant to a legally mandatory disclosure to a Taxing Authority;
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- (v) in accordance with past practice to the extent the past practice is not contradictory to mandatory law or
 - (vi) at the written request of or with the written approval of the Sellers.
 - (vi) the Pre-Effective Date Tax or Event Tax cannot or could not be avoided by offsetting taxable profits against any Tax losses carry back or Tax losses carry forward that are or were available (including as a result of subsequent tax audits) in the Pre-Effective Date Period, whereby any consumption or reduction of such Tax loss carry back or Tax loss carry forward caused directly or indirectly by the Share Purchaser or - after the Closing Date - by the relevant Group Company shall be disregarded for the purpose of determining the existence of such offsetting opportunity ("as-if-calculation");
 - (vii) the Pre-Effective Date Tax or Event Tax is not the result of a failure by the Share Purchaser to comply with any of its covenants, obligations or any other kind of commitment set forth in this Section 8;
 - (viii) this Agreement does not provide otherwise that the Tax in question shall be borne by the Share Purchaser; and
 - (ix) the Pre-Effective Date Tax or Event Tax does not correspond to or cannot be offset against Tax reductions (*Steuerminderungen*), Tax Refunds or any other kind of Tax savings, in each case arising out of or relating to the circumstance triggering the Tax indemnification claim, including but not limited to reciprocal effects (*Wechselwirkungen*) resulting e.g. from the lengthening of depreciation periods or higher depreciation allowances (*Phasenverschiebung*) or from the transfer of items relevant for Taxes (e.g. turnover, income, expenses, VAT payable corresponding with a VAT refund etc.) into another calendar year or the transfer of Tax items from one entity to another entity. The Tax reduction to be deducted shall be calculated for purposes of this clause under the assumption that the relevant Group Company is and will remain in a Tax paying position and exclusively as follows on an all-in basis: (i) face value of the Tax reduction if and to the extent the Tax saving relates to other Taxes than Income Taxes, i.e. without any discounting effect, but minus any Income Tax thereon, if any, and (ii) the net present value of the Tax reduction if and to the extent the Tax saving relates to Income Taxes whereby the net present value shall be calculated on the basis of (a) the statutory Tax rates applicable in the respective jurisdiction on the Closing Date, (b) an equal allocation of the reverse effect over three (3) years in the case of fixed assets, five (5) years in the case of pension accruals, and one (1) year
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in the case of current assets and liabilities and any other accruals and (c) an applied discount rate of six (6) per cent per annum.

- c) Any indemnification payment to be made by the Sellers pursuant to Section 8.1 is due by the later of twenty (20) Business Days after the Seller 3 acting for and on behalf of all Sellers has been notified in writing by the Share Purchaser about the payment obligation and the corresponding payment date together with a copy of the underlying Tax assessment and five (5) Business Days before the last date on which the Tax is payable (without triggering a liability to interest or penalties). On request of the Seller 3 acting for and on behalf of all Sellers the Share Purchaser shall procure that the relevant Group Company makes reasonable efforts to achieve a deferred payment date, in particular but not limited to (where appropriate) the application for a suspension of enforcement of the tax payment obligation (*Aussetzung der Vollziehung*) or equivalent application in a relevant foreign jurisdiction. If the Tax for which an indemnification payment has been made is subsequently reduced, the difference between the higher indemnification payment and the local Tax amount shall be reimbursed by the Share Purchaser to the Sellers. Sections 8.2c) and 8.2d) shall apply mutatis mutandis to the existence of over-indemnification and the reimbursement obligation of the Share Purchaser.

8.2 Tax Refunds; Overstated Tax Provisions;

- a) The Share Purchaser shall pay to the Sellers an amount equal to any Pre-Effective Date Tax Refund received by the Share Purchaser or any of the Group Companies after the Effective Economic Date if and to the extent that the aggregate amount of these Pre-Effective Date Tax Refunds exceeds the aggregate amount of all Tax Refunds shown in the Locked Box Financial Statements;
 - b) The Share Purchaser shall pay to the Sellers the amount of any Tax liability, Tax accrual or Tax provision (other than deferred Tax in each case) included - also as part of other liabilities, accruals and provisions - in the Locked Box Financial Statements that exceeds the actual Tax charge. and therefore is or has to be dissolved in the commercial balance sheet of the relevant Group Company.
 - c) The Share Purchaser shall be entitled to exercise a right of set-off (*Aufrechnung*) with respect to its obligations under this section 8.2 against its existing claims against the Sellers under this Agreement in accordance with sections 387 et seq. BGB.
 - d) The Share Purchaser shall, and shall procure that the relevant Group Company will promptly notify the Seller 3 acting for and on behalf of all Sellers in writing of the receipt of any Pre-Effective Date Tax Refund in the meaning of Section 8.2a) and/or the amount of any excess referred to in Section 8.2b). The Sellers are entitled to appoint a certified accounting firm at their own expense - to confirm the amount of the Pre-Effective Date
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Tax Refund or excess referred to in Section 8.2b). Section 8.5c) shall apply *mutatis mutandis* to such review or investigation.

- e) Any amount payable to Sellers pursuant to this Section 8.2 shall be due and payable twenty (20) Business Days after the Pre-Effective Date Tax Refund has been refunded (including - but not limited to - by way of set-off, deduction or consumption) to the Share Purchaser or the relevant Group Company or the respective Tax liability or accrual has been or should have been - in accordance with relevant local GAAP - dissolved.

8.3 Tax Covenants

- a) The Share Purchaser covenants to the Sellers by way of an independent promise of guaranty (*selbständiges Garantieverprechen*) pursuant to section 311 para. 1 BGB that the Share Purchaser will not, and that after the Closing Date any of the Group Companies or its direct or indirect shareholders will not,
 - (i) take any action that subject to Share Purchaser's Knowledge (i) gives or could give rise to any additional Tax liability or other damage (including, but not limited to, any Tax indemnification liability under this Section 8) of the Sellers or other present or former direct or indirect shareholders of the Group Companies or (ii) result in any increase thereof or in the loss or reduction of any Tax Asset; or
 - (ii) if it has or could have an impact subject to Share Purchaser's Knowledge on Tax matters related to the Pre-Effective Date Period or a Relevant Tax Proceeding (i) exercise or change any Tax election right for any of the Group Companies, (ii) prepare, determine or change any (commercial or tax) financial statements or accounting practice of any of the Group Companies, (iii) amend any Tax Return filed on or before Closing for any of the Group Companies, (iv) change any transfer pricing scheme of any of the Group Companies which is in place at the Closing Date, (v) enter into any transaction, merger, conversion or any other kind of restructuringunless in any case (i) the action or omission is compelled by mandatory law or (ii) the Purchasers undertake to indemnify the Sellers from any such Tax consequences relating to a Pre-Effective Date Period or (iii) the Sellers have given their prior written consent to the Share Purchaser to take such action or omission as set out in 8.3(a) (i) or (ii). These covenants constitute - for the avoidance of doubt - also contracts in favour of third parties (*Vertrag zugunsten Dritter*). For purposes of this Section 8.3a), Share Purchaser's Knowledge is limited to anything guaranteed or disclosed in Section 6.13 or the relevant Annexes to Section 6.13.
 - b) Prior to the Closing Date, the Sellers shall prepare and file, or cause the relevant Group Company (i) to prepare and file Tax Returns when due before the Closing Date and (ii)
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timely pay, or procure that timely be paid, all Taxes payable under such Tax Returns, in all cases taking into account any permitted extension of time.

- c) After the Closing Date, the Share Purchaser shall procure that all of the Group Companies prepare and file when due all outstanding Tax Returns in line with past practice. Any Tax Returns relating in whole or in part to any Pre-Effective Date Taxes or to the Pre-Effective Date Period or a Relevant Tax Proceeding shall be subject to the review and written consent of Seller 3 acting for and on behalf of all Sellers. The Share Purchaser shall not, and procures that the Company will not, submit any such tax return to any Taxing Authority without such prior review and written approval by Seller 3 acting for and on behalf of all Sellers. The Share Purchaser shall ensure that any such Tax Return to be reviewed and approved by Seller 3 acting for and on behalf of all Sellers will be sent to the Seller 3 acting for and on behalf of all Sellers not later than twenty (20) Business Days prior to the due filing date of the relevant Tax Return. The Sellers shall be deemed to have given their consent to any such Tax Return timely and fully furnished to Seller 3 for review if they did not provide any comment with respect to the Tax Return to the Share Purchaser or the relevant Group Company within fifteen (15) Business Days following the receipt of the respective Tax Return. Section 8.5c) shall apply *mutatis mutandis* for any factual information that the Sellers deem necessary for their review of a Tax Return and that the Sellers request from the Share Purchaser before expiry of the period of fifteen (15) Business Days pursuant to the preceding sentence.
- d) Nothing in this section 8.3 shall require the Share Purchaser or any Group Company to take any action that might be regarded as being against any law or against any applicable administrative directive at the time the action has to be taken.

8.4 Purchase Price Adjustment

Any payment to be made pursuant to this Section 8 shall be treated as an adjustment of the Share Purchase Price.

8.5 Tax Proceedings after Closing

- a) The Share Purchaser shall notify the Seller 3 acting for and on behalf of all Sellers of any announcement and commencement of any Relevant Tax Proceedings. The notification shall be made in writing and without undue delay after the Share Purchaser and/or the relevant Group Company became aware (*positive Kenntnis*) of such event and shall contain such factual information describing the object of the Relevant Tax Proceeding as is known by the Share Purchaser and the relevant Group Company at that time and the amount of the potential Tax liability in reasonable detail and shall include copies of any
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- assessment, notice or other document received from any Taxing Authority related to the respective Tax.
- b) The Share Purchaser shall ensure, and shall procure that the relevant Group Company shall, (i) give the Seller 3 acting for and on behalf of all Sellers the opportunity to fully participate, at the Sellers' cost and expense, from the beginning on in all Relevant Tax Proceedings, (ii) upon the request of the Seller 3 acting for and on behalf of all Sellers and at the Sellers' cost and expense, challenge and litigate any Tax assessment or other decision of any Taxing Authority or Tax court if and to the extent it is related to a Tax to be indemnified or a Tax Asset of the Sellers and (iii) comply with any reasonable instructions given by Seller 3 acting for and on behalf of all Sellers in relation to the conduct of the Tax Proceedings referred to in (i) and (ii) above, if and to the extent that the Sellers' instructions are not unduly burdensome. If the Seller 3 acting for and on behalf of all Sellers elects by a written request to lead Relevant Tax Proceedings (including but not limited to the objection of Tax assessment and appeals against court decisions) through counsel of its choice and at its expense, then the Share Purchaser shall promptly authorize, and shall cause the relevant Group Company to authorize, (by power-of-attorney and such other documentation as may be necessary or appropriate) the designated representative of the Sellers to represent the Share Purchaser and the relevant Group Company in the Tax Proceedings. In any case the Share Purchaser shall, and shall procure that after the Closing Date without the prior written consent of the Seller 3 acting for and on behalf of all Sellers, which shall not be unreasonably withheld or delayed, (i) no document or information related to any Relevant Tax Proceedings is submitted to any Taxing Authority and (ii) no Relevant Tax Proceeding is settled, conceded or in any way consented to or becomes time-barred.
- c) The Share Purchaser shall fully cooperate, and shall cause the Group Companies and their representatives to fully cooperate with the Sellers with respect to all Relevant Tax Proceedings. On request of the Seller 3 acting for and on behalf of all Sellers, the Share Purchaser shall in particular procure that the Sellers obtain any necessary document or information which can reasonably be useful for the Sellers to avoid or mitigate any liability under this Section 8, to protect a Tax Asset or to enforce a claim under this Section 8, provided that the respective document or information is accessible for the relevant Group Company or the Share Purchaser or can be procured by them without unreasonable effort. The Share Purchaser or the Group Companies shall store all records, documents and information relating to Relevant Tax Proceedings until the expiration of any applicable statute of limitations.
- d) If the Sellers elect pursuant to Section 8.5b) to lead Relevant Tax Proceedings through counsel of their choice (and at their expense) the Sellers shall:
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- i. keep the Share Purchaser fully informed of all matters relating to the Relevant Tax Proceedings and deliver to the Share Purchaser copies of all substantive material correspondence (to include attendance notes of any telephone conversations with any Taxing Authority) relating to the Relevant Tax Proceedings;
 - ii. use all reasonable endeavours to bring the Relevant Tax Proceedings to a conclusion as regards the relevant Taxing Authority within a reasonable period of time; and
 - iii. obtain the Share Purchaser's prior written approval to the settlement or compromise of the Relevant Tax Proceedings which is likely to affect the future Tax liability of a Group Company or the Share Purchaser.
- e) Section 8.5b) does not apply if the Sellers or a Group Company or any person acting on their behalf have committed an act or is responsible for an omission which constitutes Tax fraudulent or grossly negligent conduct.
- f) Nothing in this Section 8.5 shall require the Share Purchaser or any Group Company to take any action which will constitute a breach of mandatory law.
- g) If the Sellers do not either request any action to be taken pursuant to Section 8.5b), or give notice to the Share Purchaser that they wish to lead Relevant Tax Proceedings through counsel of their choice pursuant to Section 8.5b), in either case within fifteen (15) Business Days of the timely receipt of the notification referred to in Section 8.5a), the Share Purchaser or relevant Group Company shall have the conduct of the Relevant Tax Proceedings absolutely and shall be free to contest, pay or settle the Relevant Tax Proceedings on such terms as the Share Purchaser or relevant Group Company may in its absolute discretion consider fit.

8.6 Limitations

The claims of the Share Purchaser and the Sellers under this Section 8 shall become time-barred upon expiration of a six (6) months period after the earlier of (i) the point in time at which the Tax assessment underlying the respective claim becomes finally and legally binding (*formell und materiell bestandskräftig*) or any equivalent status under the laws of any other relevant jurisdiction and (ii) eighteen (18) months following the Effective Economic Date; but in respect of claims of the Sellers pursuant to Section 8.2 no earlier than six (6) months after the Seller has received notification pursuant to Section 8.2 d) (it being understood that claims of the Sellers shall only become time-barred for the specific amounts of the specific claim expressly so notified). The notification obligations of the Share Purchaser pursuant to Section 8.2 d) shall not become time-barred, but shall only cease to exist upon a respective written waiver by the Sellers.

Section 9 Representations, Warranties and Covenants of the Purchasers

- 9.1 The Purchasers represent and warrant to the Sellers in the sense of sections 311 para. 1, 276 para. 1 BGB as follows, in each case as of the Closing Date:
- a) The Purchasers are corporations duly incorporated and validly existing under the Laws of Germany and the Cayman Islands.
 - b) The execution and performance by the Purchasers of this Agreement and the consummation of the Transaction is within the corporate powers of the Purchasers and have been duly authorised by all necessary corporate action on the part of the Purchasers.
 - c) The Purchasers are not insolvent or over-indebted and no insolvency proceedings have been initiated or opened, or rejected because of a lack of assets and no circumstances exist which would justify the initiation or opening of such insolvency proceedings.
 - d) The Share Purchaser is purchasing the Shares for investment for its own account and not with a view to, or for sale in connection with, any distribution thereof.
 - e) The execution of this Agreement and the consummation of the Transaction contemplated herein will not constitute any breach of any other obligations of the Purchasers.
 - f) The Purchasers have sufficient unconditional and immediately available funds to meet their obligations hereunder.
 - g) The Purchasers are not aware (*positive Kenntnis*) of any claims against the Sellers pursuant to Section 6 and Section 7 of this Agreement as of the date hereof.

- 9.2 The Purchasers shall ensure that for a period of one (1) year as of the Closing Date, the Shareholder Loan is not repaid, neither in whole nor in part, neither unconcealed nor covert, neither in cash nor by way of any other payment (*sonstige Leistung*), nor in any other way. The Purchasers shall indemnify Seller 1 from all claims asserted by any Group Company or insolvency administrator over the assets of any Group Company, irrespective of their legal grounds, due to or in connection with a repayment of the Shareholder Loan (loan amount and/or interest) in whole or in part in breach of the obligation contained in the preceding sentence, unconcealed or covert, and regardless the recipient of such repayment.

Section 10 Protective Covenants

- 10.1 Each of Seller 2 and Seller 3 covenants separately with the Purchaser that he shall not for a period of two years after the Closing Date either alone or jointly with, through, or as, partner, director, manager, adviser, consultant or agent of or to any person, directly or indirectly:
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- a) carry on, or be engaged, employed, concerned or interested in any business which competes, directly or indirectly, with the business as carried on by the Company at the Closing Date in any territory in which such business is carried on at the Closing Date; or
- b) in competition with the business as carried on by the Company at the Closing Date, either seek to procure orders from, or do business with, or procure directly or indirectly any other person to procure orders from or do business with, any person who has been a customer or a supplier of such business at any time in the 12 months before the Closing Date or use knowledge of or influence over any such customer or supplier to the material detriment of the Company.

10.2 Each of the Sellers covenants separately with the Purchaser that he shall not for a period of two years after the Closing Date either alone or jointly with, through, or as, partner, director, manager, adviser, consultant or agent of or to any person, directly or indirectly seek to engage, employ, solicit, or contact with a view to seeking the engagement or employment by any person of any Key Employee.

10.3 Each of the covenants in this Section 10 is a separate undertaking by each relevant Seller and shall be enforceable by the Purchaser separately and independently of its right to enforce any other covenant in this Section 10.

10.4 Each of the Sellers acknowledges that the provisions of this Section 10 are fair and reasonable, but if any restriction is found to be unenforceable but would be valid if part of it were deleted or the period or area of application reduced, the restriction shall apply with such modification as necessary to make it valid and effective.

Section 11 Closing Actions

11.1 On the Closing Date the following actions (collectively, the "**Closing Actions**") shall be performed simultaneously (*Zug um Zug*):

- a) The Sellers provide the Purchaser with copies of the executed security release agreements, drafts of which are attached hereto as Annex 11.1 a);
 - b) The Share Purchaser shall in accordance with Section 5.5 above repay the Existing Bank Debt on behalf of the Company;
 - c) The Share Purchaser shall in accordance with Section 5.4 above pay the Share Purchase Price to (i) the joint bank account of the Sellers, (ii) to the Seller 2 escrow account as set forth in Annex 5.3 a) and (iii) to the Seller 3 escrow account as set forth in Annex 5.3 b), respectively;
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- d) The Loan Purchaser shall in accordance with Section 5.4 above pay the Loan Purchase Price to the joint bank account of the Sellers;
- e) The Sellers shall provide to the Share Purchaser signed resignation letters of all members of the advisory board (*Beirat*) of the Company.
- f) Seller 2 provides to the Share Purchaser an executed version of the release and payment agreement with the Company regarding any tax payments to be made by the Company with respect to his portion of the Purchase Price, a draft of which is attached hereto as Annex 11.1 f);
- g) Seller 3 provides to the Share Purchaser an executed version of the release and payment agreement with Dicom Limited regarding any tax payments to be made by Dicom Limited with respect to his portion of the Purchase Price, a draft of which is attached hereto as Annex 11.1 g);
- h) Seller 2, Seller 3 and the Share Purchaser have entered into the escrow agreements with the acting Notary, drafts of which are attached hereto as Annex 5.3 a) and Annex 5.3 b).

11.2 Upon receipt of the full Purchase Price, the conditions precedent for the transfer *in rem* of the Shares and of the receivables from the Shareholder Loan are fulfilled. The Sellers shall promptly inform the Purchaser of their receipt of that part of the Purchase Price that is to be paid into the joint bank account of the Sellers and the Notary shall promptly inform the Parties of his receipt of that part of the Purchase Price which is to be paid into the Seller 2 escrow account as set forth in Annex 5.3 a) and into the Seller 3 escrow account as set forth in Annex 5.3 b), respectively. The Share Purchaser shall be entitled to waive in writing the Closing Action set forth in Section 11.1e). All other Closing Actions may be waived by the Parties acting jointly.

11.3 If all Closing Actions as set forth in Section 11.1a) to 11.1 h) have been taken or waived, the Sellers and the Purchasers shall execute a joint written confirmation, a draft of which is attached hereto as Annex 11.3, that the Closing Actions set forth in Section 11.1 have been taken or waived and submit it to the Notary. The Sellers and the Share Purchaser herewith irrevocably instruct the Notary to submit and file with the commercial register of the Company an updated shareholders' list reflecting the execution of the share transfers effected hereunder immediately after he has received the aforesaid confirmation.

11.4 The Sellers hereby irrevocably authorize the Share Purchaser with effect as of the Closing Date to make shareholders' resolutions on behalf of the Sellers with regard to the Company and to make all declarations and to take all measures that are necessary or appropriate to pass such shareholders' resolutions (including waivers of statutory formalities), in particular:

- a) Resolutions on the increase and payment of capital reserves or other capital measures;
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b) Other shareholder resolutions.

This power of attorney shall expire as soon as the new list of shareholders of the Company that identifies the Purchaser as the owner of the respective shares is entered into the commercial register in accordance with section 16 (1) 1 German Limited Liability Companies Act (*GmbHG*). The Share Purchaser may exercise the power of attorney without prejudice to any shareholders' resolutions which it makes in its own name pursuant to section 16 (1) 2 German Limited Liability Companies Act (*GmbHG*). The Share Purchaser will indemnify the Sellers against and from any liability due to a shareholders' resolution made by the Share Purchaser. Upon the Share Purchaser's request the Sellers will provide such power of attorney in a separate document as of the Closing Date.

Section 12 Miscellaneous

- 12.1 No party to this agreement shall make any public announcement with respect to this Agreement prior to or after the Closing Date without the prior written consent of the other Party (such approval not to be unreasonably withheld or delayed) and prior to and after the Closing Date, each Party shall keep confidential and not disclose to any Third Party any Confidential Information regarding the other Party disclosed to it in connection with this transaction as well as the contents of this Agreement, in each case except as may be required to comply with the requirements of any applicable Laws or the rules and regulations of any stock exchange upon which the securities of one of the Parties or their respective parent companies are listed or to the extent Confidential Information has to be given by the Sellers to their direct or indirect shareholders.
- 12.2 Each Seller shall not, and shall procure that their respective advisers (unless already bound by contractual and/or professional duty to keep the Confidential Information secret), officers, employees, Affiliates or direct or indirect shareholders will (directly or indirectly), at any time after the date of this Agreement, use or disclose any Confidential Information other than in the ordinary course of carrying on the business of the Group Companies or cause any unauthorised disclosure of any Confidential Information to any person.
- 12.3 All notices or other communications hereunder shall be deemed to have been duly made if they are made in writing in English (or accompanied by a certified English translation) and are delivered by registered mail or courier service or sent via facsimile to the person at the address set forth below, or such other address as may be designated by the respective Party to the other Parties in the same manner:
- a) To Seller 1:
For the attention of: Mr. Barry McClay and Mr. Michel Davy
c/o International Private Equity Services Limited
-

1 Royal Plaza, Royal Avenue
St. Peter Port
Guernsey, GY1 2HL

Facsimile: 0044 (1481) 715 219

As well as for information purposes to their advisors:

For the attention of: ECM Equity Capital Management GmbH

Mr. Axel Eichmeyer and Mr. Florian Thelenberg

Taunusanlage 18
60325 Frankfurt am Main
Germany

Facsimile: 0049 (69) 97102 24

b) To Seller 2: Franzotto Hornung
Am Michelgrund 16
69469 Weinheim
Germany

Facsimile: 0049 (6201) 962802

c) To Seller 3: Stuart Craig Heley
50 Lichfield Road, Sutton Coldfield
West Midlands B74 2NA
United Kingdom

Facsimile: 0044 (1773) 524906

For Seller 1-3 with copies to: Mayer Brown LLP

Birgit Hübscher-Alt
Friedrich-Ebert-Anlage 35-37
60327 Frankfurt/Main
Germany

Facsimile: 0049 (69) 7941 1028

d) To the Share Purchaser: Kadant Johnson Germany GmbH
Geschäftsführung
Carl-Leverkus-Straße 10A
40764 Langenfeld

Germany

Facsimile: 001-978-635-1593

- e) To the Loan Purchaser: Kadant Cayman Ltd.
c/o Maples Corporate Services Ltd
P.O. Box 309
Ugland House
Ky1-1104, Grand Cayman, Cayman Islands
Facsimile: 001-978-635-1593

For the Purchasers with copies to: Kadant Inc.
c/o Sandra Lambert, Vice President, General Counsel
One Technology Park Drive
Westford, MA 01886
USA
Facsimile: 001- 978-635-1593

SKW Schwarz Rechtsanwälte
Dr. Sebastian Graf von Wallwitz
Wittelsbacherplatz 1
80333 München
Germany
Facsimile: 0049 (89) 280 94 32

- 12.4 The Parties confirm to each other their mutual legal understanding (*gemeinsame Rechtsauffassung*) that German law applies to this Agreement and all transactions contemplated herein. The Parties undertake (*Prozessvereinbarung*) to hold themselves bound to this legal understanding in the event of a dispute. The application of the UN Convention on Contracts for the Sale of Goods shall be excluded.
- 12.5 Exclusive place of jurisdiction to all disputes arising out of or in connection with this Agreement shall be Frankfurt/Main.
- 12.6 All transfer taxes, fees (including any notarial fees), stamp or registration duties and charges (including those incurred in connection with any governmental approvals, merger control filings, or costs for a certified translation for tax authorities - if required) payable in connection with the execution and performance of this Agreement shall be borne by the Purchasers. Notwithstanding
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the above, each Party shall pay its own expenses, including the fees of its advisers or any finder's fee, incurred in connection with this Agreement or the transaction contemplated hereby.

- 12.7 Should any provision of this Agreement, or any provision incorporated in the future, be or become invalid or unenforceable, the validity or enforceability of the other provisions of this Agreement shall remain unaffected. The Parties agree to replace the invalid or unenforceable provision by a valid and enforceable provision which, to the extent legally permissible, comes as close as possible to the intent and purpose of the invalid or unenforceable provision. The same shall apply if any provision of this Agreement is invalid due to the scope of a time period or if this Agreement contains a contractual gap (*Vertragslücke*). The headings shall not affect the interpretation of this Agreement.
- 12.8 Any agreements and declarations among the Parties with respect to the subject-matter hereof shall be invalid except if made in writing or in such other way as prescribed by mandatory Law. This shall also apply to any waiver of this clause.
- 12.9 Neither Party may assign or otherwise dispose over any rights or claims under or in connection with this Agreement without the prior written consent of the other Parties.

Aforementioned provisions were read out to the persons appearing, approved by them and signed personally by the persons appearing and the Notary as follows:

/s/ Birgit Hübscher-Alt

/s/ Stuart Craig Heley

/s/ Franzotto Hornung

/s/ Sebastian Graf con Wallwitz

/s/ Klaus Beine

SECOND AMENDMENT TO CREDIT AGREEMENT

This SECOND AMENDMENT TO CREDIT AGREEMENT (this "Second Amendment"), dated as of March 29, 2016 and, made by and among KADANT INC., a Delaware corporation (the "Borrower"), the Foreign Subsidiary Borrowers parties 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 Foreign Subsidiary Borrowers, the Agents and the Lenders, RBS Citizens, N.A., as Joint Lead Arranger and Joint Bookrunner, Wells Fargo Securities, LLC, as Joint Lead Arranger and Joint Bookrunner and Wells Fargo Bank, N.A., as Syndication Agent, entered into a Credit Agreement dated as of August 3, 2012 (the "Original Credit Agreement").

The Borrower, the Foreign Subsidiary Borrowers, the Agents and the Lenders entered into the First Amendment to Credit Agreement and Limited Consent dated as of November 1, 2013 (the "First Amendment"; the Original Credit Agreement as amended by the First Amendment, the "Original Amended Credit Agreement").

The Borrower has informed the Agents and the Lenders that a wholly-owned subsidiary of the Borrower, Kadant International Luxembourg SCS ("Kadant Lux") intends to acquire all of the Capital Stock of RT Holding GmbH (the "German Acquisition Target") through its wholly-owned subsidiary Kadant Johnson Deutschland GmbH ("Kadant Germany") (such transaction, the "German Acquisition"), which German Acquisition shall be funded, in part, with Loans to be advanced under the Credit Agreement to Kadant Lux (such extension of credit by the Lenders, the "German Acquisition Advance"), which Kadant Lux will loan to Kadant Cayman Ltd. ("Kadant Cayman"), and which Kadant Cayman will loan to Kadant Germany.

The Borrower has requested that the Agents and the Lenders (a) consent to certain amendments to the Original Amended Credit Agreement including the joinder of Kadant Lux and Kadant Germany as Foreign Subsidiary Borrowers, and each as a Foreign Subsidiary Borrower (Kadant Lux and Kadant Germany, collectively, the "Additional Foreign Subsidiary Borrowers" and each an "Additional Foreign Subsidiary Borrower"), under the Original Amended Credit Agreement, and (b) agree that the conditions to each extension of credit to a Foreign Subsidiary Borrower set forth in Sections 5.2 and 5.4 of the Original Amended Credit Agreement shall be limited as set forth herein with respect to the German Acquisition Advance. Kadant Cayman will guarantee the obligations of Kadant Lux and Kadant Germany.

Capitalized terms not defined herein shall have the meanings given such terms in the Original Amended Credit Agreement. The Original Amended Credit Agreement, as amended by this Second Amendment and as further amended, modified or supplemented from time to time, is hereinafter referred to as the "Credit Agreement". This Second 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 Foreign Subsidiary Borrowers, the Agents and the Lenders hereby agree as follows:

1. Limited Consent. Subject to the terms and conditions herein contained and in reliance upon the representations and warranties of the Borrower herein contained, effective upon satisfaction of the conditions precedent contained in Section 3 below, the Agents and the Lenders hereby agree that the conditions to each extension of credit to a Foreign Subsidiary Borrower set forth in Sections 5.2 and 5.4 of the Credit Agreement shall be limited as set forth below with respect to the German Acquisition Advance to the extent that the German Acquisition is consummated in connection therewith and the Revolving Commitments have not otherwise terminated prior to the date of the German Acquisition in accordance with the terms of the Credit Agreement (other than a termination resulting from a Disregarded Default) (the conditions to the German Acquisition Advance being referred to herein as the "Limited Funding Conditions"):

(A) The representations and warranties referenced in Section 5.2(a) of the Credit Agreement shall be limited to (x) those representations and warranties set forth in Sections 4.3(a), 4.3(e), 4.4, 4.5, 4.11, 4.14, 4.19 and 4.21 of the Credit Agreement as those representations and warranties relate to Kadant Lux and Kadant Germany, and (y) (limited to the best of Kadant Lux's and Kadant Germany's knowledge) those representations and warranties made by or with respect to the German Acquisition Target in the acquisition agreement entered into in connection with the German Acquisition as are material to the interests of the Lenders, but only to the extent Kadant Germany and/or Kadant Lux, as applicable, is entitled to terminate such acquisition agreement on the basis of such representations and warranties.

(B) The Defaults and Events of Default referred to in Section 5.2(b) of the Credit Agreement shall be limited to those Events of Default set forth in Sections 8(a), 8(c) as it relates to a violation of Section 7.1 of the Credit Agreement, 8(f), 8(i) and 8(j) of the Credit Agreement. Any Default or Event of Default not referenced in the previous sentence is referred to herein as a "Disregarded Default."

The parties hereto acknowledge and agree to the following in connection with the consent granted pursuant to this Section 1:

(i) The Limited Funding Conditions apply solely to the German Acquisition Advance to the extent consummated on or before May 31, 2016 and not to any other funding under the Credit Agreement.

(ii) The German Acquisition Advance shall also be subject to the following conditions: (x) the German Acquisition shall constitute a "Permitted Acquisition" under (and as defined in) the Credit Agreement except that the occurrence of a Disregarded Default shall be disregarded for the purposes of determining compliance with clause (c) of the definition of "Permitted Acquisition," and (y) on the date of the German Acquisition Advance, the Borrower shall (I) certify that no Default or Event of Default (based on the Borrower's knowledge with respect to the German Acquisition Target) has occurred or is continuing both before and after giving effect to the German Acquisition Advance and the German Acquisition, or (II) certify that no Default or Event of Default other than a Disregarded Default has occurred or is continuing both before and after giving effect to the German Acquisition Advance and the German Acquisition and provide a list of all Disregarded Defaults (based on the Borrower's knowledge with respect to the German Acquisition Target) that have occurred and are continuing as of such date.

(iii) The Lenders' agreement to fund the German Acquisition Advance subject to the Limited Funding Conditions is not intended (and should not be construed) as a waiver of any Disregarded Default existing at the time of such German Acquisition Advance or of any of the Agents' or the Lenders' rights and remedies with respect thereto, all of which are hereby reserved and preserved in their entirety by the Agents and the Lenders.

The foregoing limited consent and limited waiver is limited to the German Acquisition as set forth herein and is not a commitment or agreement to grant any consent or waiver in the future.

2. Amendments to the Original Amended Credit Agreement. 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 4 below, the following amendments are incorporated into the Original Amended Credit Agreement:

(A) Section 1.1 of the Original Amended Credit Agreement is hereby amended to delete the text in the definition of "Foreign Subsidiary Borrowers" and to insert the following in lieu thereof:

"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 Lamort S.A.S., Kadant Johnson Europe B.V, Kadant Canada Corp., Kadant International Luxembourg SCS and Kadant Johnson Deutschland GmbH.

(B) Section 5.4(ii) of the Original Amended Credit Agreement is hereby amended to delete the entirety of Section 5.4(ii) and to insert the following in lieu thereof:

(ii) No Immunities, etc. The assets of such Foreign Subsidiary Borrower shall be available without material limitation to satisfy the Foreign Subsidiary Borrower Obligations of such Foreign Subsidiary Borrower under laws of the jurisdiction in which such Foreign Subsidiary Borrower is organized and existing provided that such assets of a Foreign Subsidiary Borrower may be subject to liens permitted under Section 7.3 which such Foreign Subsidiary Borrower may grant.

3. Conditions Precedent.

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

(a) the Borrower and each Foreign Subsidiary Borrower shall have delivered to the Agents a fully executed counterpart of this Second Amendment;

(b) Each Additional Foreign Subsidiary Borrower shall have delivered to the Agents a joinder agreement in form and substance satisfactory to the Agents along with (i) such certificates or resolutions or other action, incumbency certificates and/or other certificates of Responsible Officers of each Additional Foreign Subsidiary Borrower 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 Second Amendment, the Credit Agreement and the other Loan Documents to which such Additional Foreign Subsidiary Borrower is a party or is to be a party and (ii) such documents and certifications as the Agents may reasonably require to evidence that each Additional Foreign Subsidiary Borrower is duly organized or formed, and that each Additional Foreign Subsidiary Borrower 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, in each case to the extent applicable, except where the failure to be so qualified could reasonably be expected to result in a Material Adverse Effect, and including certified copies of the Organization Documents of each Additional Foreign Subsidiary Borrower;

(c) Kadant Cayman shall have delivered to the Agents a fully executed Limited Assumption Agreement and become a party to the Guarantee Agreement;

(d) Each Additional Foreign Subsidiary Borrower shall have delivered to the Agents a fully executed letter of direction authorizing the disbursement of funds into certain accounts in connection with the German Acquisition Advance; and

(e) the Lenders shall have indicated their consent and agreement by executing this Second Amendment.

4. Miscellaneous.

(a) Ratification. The terms and provisions set forth in this Second Amendment shall modify and supersede all inconsistent terms and provisions set forth in the Original Amended Credit Agreement and except as expressly modified and superseded by this Second Amendment, the terms and provisions of the Original Amended Credit Agreement and the other Loan Documents are ratified and confirmed and shall continue in full force and effect. The Borrower, the Foreign Subsidiary Borrowers, the Agents and the Lenders agree that the Original Amended 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 Second Amendment, the Original Amended Credit Agreement (as unmodified by this Second 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 Second 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 Second Amendment (i) are within the Borrower's and each Foreign Subsidiary Borrower's organizational power and authority; (ii) have been duly authorized by all necessary organizational action of the Borrower and each Foreign Subsidiary Borrower; (iii) is not in contravention of any provision of the Borrower'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 or any Foreign Subsidiary Borrower is a party or by which Borrower, any Foreign Subsidiary Borrower or any of their property is bound. All representations and warranties made in this Second Amendment shall survive the execution and delivery of this Second Amendment.

(c) 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 Second Amendment, including without limitation, the reasonable costs and fees of the Agents' legal counsel.

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

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

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

(g) Counterparts. This Second Amendment may be executed in one or more counterparts and on facsimile counterparts or other electronic transmission, as permitted under the Original Amended 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.

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

(i) ENTIRE AGREEMENT. THIS SECOND 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.

(j) Acknowledgement and Reaffirmation. Each of the Borrower, Kadant Black Clawson, Inc., Kadant Johnson China - WX Holding Inc., Kadant International Holdings Inc., and Kadant Johnson Inc., hereby acknowledges the consents granted, and amendments effected, pursuant to this Second 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 Guarantee Agreement, dated as of August 3, 2012 (as amended, supplemented or otherwise modified from time to time, the "Guarantee"), among the Guarantors and the Administrative Agent.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties hereto have caused this Second 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., as the Borrower

By: /s/ Daniel J. Walsh
Name: Daniel J. Walsh
Title: Treasurer

KADANT U.K. LIMITED, as a Foreign Subsidiary Borrower

By: /s/ Kevin Callus
Name: Kevin Callus
Title: Managing Director

KADANT LAMORT SAS, as a Foreign Subsidiary Borrower

By: /s/ Alain Serres
Name: Alain Serres
Title: President

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

By: /s/ Fredrik Westerhout
Name: Fredrik Westerhout
Title: Managing Director

KADANT CANADA CORP., as a Foreign Subsidiary Borrower

By: /s/ Daniel J. Walsh
Name: Daniel J. Walsh
Title: Treasurer

KADANT INTERNATIONAL LUXEMBOURG SCS, as a Foreign Subsidiary
Borrower

By: /s/ Michael J. McKenney
Name: Michael J. McKenney
Title: Manager

KADANT JOHNSON DEUTSCHLAND GmbH, as a Foreign Subsidiary Borrower

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

[Signature Page-Second Amendment to Credit Agreement]
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CITIZENS BANK, N.A., as Administrative Agent

By: /s/ Seth Rogers
Name: Seth Rogers
Title: Vice President

[Signature Page-Second Amendment to Credit Agreement]
(S-3)

CITIZENS BANK, N.A., as Multicurrency Administrative Agent

By: /s/ Seth Rogers
Name: Seth Rogers
Title: Vice President

[Signature Page-Second Amendment to Credit Agreement]
(S-4)

CITIZENS BANK, N.A., as a Lender

By: /s/ Seth Rogers
Name: Seth Rogers
Title: Vice President

[Signature Page-Second Amendment to Credit Agreement]
(S-5)

WELLS FARGO BANK, N.A., as a Lender

By: /s/ Jeffrey Kinney
Name: Jeffrey Kinney
Title: Senior Vice President

[Signature Page-Second Amendment to Credit Agreement]
(S-6)

U.S. BANK NATIONAL ASSOCIATION, as a Lender

By: /s/ Ken Gorski
Name: Ken Gorski
Title: Vice President

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(S-7)

U.S. BANK NATIONAL ASSOCIATION (CANADA BRANCH), as a Lender

By: /s/ Paul Rodgers
Name: Paul Rodgers
Title: Vice President

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(S-8)

HSBC France, as a French Party Lender

By: /s/ Ludovic Lepic

Name: Ludovic Lepic

Title: Director

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(S-9)

HSBC Bank USA, National Association, as a Lender

By: /s/ Andrew Everett

Name: Andrew Everett

Title: Assistant Vice President

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(S-10)

SANTANDER BANK, N.A., as a Lender

By: /s/ Karen Ng

Name: Karen Ng

Title: Senior Vice President

[Signature Page-Second Amendment to Credit Agreement]
(S-11)

ACKNOWLEDGED AND AGREED FOR PURPOSES OF SECTION 4(j):

KADANT INC., as a Guarantor

By: /s/ Daniel J. Walsh
Name: Daniel J. Walsh
Title: Treasurer

KADANT BLACK CLAWSON INC., as a Subsidiary Guarantor

By: /s/ Daniel J. Walsh
Name: Daniel J. Walsh
Title: Treasurer, Kadant Inc.

KADANT JOHNSON CHINA - WX HOLDING INC., as a Subsidiary Guarantor

By: /s/ Daniel J. Walsh
Name: Daniel J. Walsh
Title: Treasurer, Kadant Inc.

KADANT INTERNATIONAL HOLDINGS INC., as a Subsidiary Guarantor

By: /s/ Daniel J. Walsh
Name: Daniel J. Walsh
Title: Treasurer, Kadant Inc.

KADANT JOHNSON INC., as a Subsidiary Guarantor

By: /s/ Daniel J. Walsh
Name: Daniel J. Walsh
Title: Treasurer, Kadant Inc.

KADANT CAYMAN LTD., as a limited Foreign Subsidiary Guarantor

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

CERTIFICATION

I, Jonathan W. Painter, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended April 2, 2016 of Kadant Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 11, 2016

/s/ Jonathan W. Painter

Jonathan W. Painter
Chief Executive Officer

CERTIFICATION

I, Michael J. McKenney, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended April 2, 2016 of Kadant Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 11, 2016

/s/ Michael J. McKenney

Michael J. McKenney
Chief Financial Officer

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

Pursuant to 18 U.S.C. Section 1350, the undersigned, Jonathan W. Painter, 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 April 2, 2016 of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in this Quarterly Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 11, 2016

/s/ Jonathan W. Painter

Jonathan W. Painter
Chief Executive Officer

/s/ Michael J. McKenney

Michael J. McKenney
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 Securities Exchange Act of 1934, as amended (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.

