

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

-----  
FORM 10-Q

(mark one)

- Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Quarter Ended June 30, 2001
- Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number 1-11406

KADANT INC.

(Exact name of Registrant as specified in its charter)

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

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

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

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

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

| Class                         | Outstanding at July 30, 2001 |
|-------------------------------|------------------------------|
| Common Stock, \$.01 par value | 12,277,147                   |

PART I - Financial Information

Item 1 - Financial Statements

KADANT INC.

Consolidated Balance Sheet  
(Unaudited)

Assets

| (In thousands)  | June 30,<br>2001 | December 30,<br>2000 |
|---|------------------|----------------------|
| -----   |                  |                      |
| Current Assets:   |                  |                      |
| Cash and cash equivalents   | \$145,755        | \$ 62,461            |
| Advance to affiliate  | 3,498            | 5,704                |
| Available-for-sale investments, at quoted market value<br>(amortized cost of \$17,434 and \$86,104) | 17,434           | 86,137               |
| Accounts receivable, less allowances of \$3,026 and \$2,182   | 34,686           | 43,866               |
| Unbilled contract costs and fees  | 9,436            | 8,029                |
| Inventories:  |                  |                      |
| Raw materials and supplies  | 13,896           | 13,218               |
| Work in process   | 6,684            | 4,825                |
| Finished goods (includes \$1,874 and \$3,765 at customer locations)                                 | 15,180           | 15,034               |
| Deferred tax asset  | 9,517            | 8,879                |
| Other current assets  | 4,722            | 3,625                |
|   | -----            | -----                |

|   |           |           |
|---|-----------|-----------|
|   | 260,808   | 251,778   |
|   | -----     | -----     |
| Property, Plant, and Equipment, at Cost         | 69,413    | 67,646    |
| Less: Accumulated depreciation and amortization | 40,734    | 38,064    |
|   | -----     | -----     |
|   | 28,679    | 29,582    |
|   | -----     | -----     |
| Other Assets (Note 5)                           | 12,130    | 13,755    |
|   | -----     | -----     |
| Goodwill (Note 10)                              | 117,025   | 119,100   |
|   | -----     | -----     |
|   | \$418,642 | \$414,215 |
|   | =====     | =====     |

<

KADANT INC.

Consolidated Balance Sheet (continued)  
(Unaudited)

Liabilities and Shareholders' Investment

| (In thousands except share amounts)  | June 30,<br>2001 | December 30,<br>2000 |
|--|------------------|----------------------|
| -----  |                  |                      |
| Current Liabilities:   |                  |                      |
| Current maturities of long-term obligations  | \$ 562           | \$ 562               |
| Accounts payable   | 24,449           | 21,921               |
| Accrued income taxes   | 7,354            | 4,986                |
| Accrued payroll and employee benefits  | 7,005            | 7,727                |
| Accrued warranty costs   | 4,645            | 5,666                |
| Deferred revenue   | 2,117            | 3,600                |
| Customer deposits  | 2,545            | 3,476                |
| Other accrued expenses   | 13,967           | 12,433               |
| Common stock of subsidiary subject to redemption (at redemption value)                             | 17,026           | 17,026               |
| Due to parent company and affiliated companies   | 789              | 1,284                |
|  | -----            | -----                |
|  | 80,459           | 78,681               |
|  | -----            | -----                |
| Deferred Income Taxes and Other Deferred Items   | 7,987            | 8,042                |
|  | -----            | -----                |
| Long-term Obligations:   |                  |                      |
| Subordinated convertible debentures  | 153,000          | 153,000              |
| Notes payable  | 1,141            | 1,650                |
|  | -----            | -----                |
|  | 154,141          | 154,650              |
|  | -----            | -----                |
| Minority Interest (Note 5)   | 293              | 2,209                |
|  | -----            | -----                |
| Shareholders' Investment:  |                  |                      |
| Common stock, \$.01 par value, 150,000,000 shares authorized;<br>12,732,455 shares issued (Note 7) | 127              | 127                  |
| Capital in excess of par value   | 77,507           | 77,231               |
| Retained earnings  | 139,098          | 133,522              |
| Treasury stock at cost, 455,146 shares (Note 7)  | (20,758)         | (20,758)             |
| Deferred compensation  | (20)             | (36)                 |
| Accumulated other comprehensive items (Notes 2 and 6)  | (20,192)         | (19,453)             |
|  | -----            | -----                |
|  | 175,762          | 170,633              |
|  | -----            | -----                |
|  | \$418,642        | \$414,215            |
|  | =====            | =====                |

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

<

KADANT INC.

Consolidated Statement of Income  
(Unaudited)

| (In thousands except per share amounts)                        | Three Months Ended |                 |
|--|--------------------|-----------------|
|  | June 30,<br>2001   | July 1,<br>2000 |
| Revenues   | \$56,732           | \$60,565        |
| Costs and Operating Expenses:                                  |                    |                 |
| Cost of revenues   | 36,084             | 37,930          |
| Selling, general, and administrative expenses (Notes 9 and 10) | 14,585             | 15,749          |
| Research and development expenses                              | 1,871              | 1,953           |
| Gain on sale of property                                       | -                  | (971)           |
|  | 52,540             | 54,661          |
| Operating Income   | 4,192              | 5,904           |
| Interest Income  | 1,812              | 2,691           |
| Interest Expense   | (1,871)            | (1,865)         |
| Income Before Provision for Income Taxes and Minority Interest | 4,133              | 6,730           |
| Provision for Income Taxes                                     | 1,736              | 2,775           |
| Minority Interest (Income) Expense (Note 5)                    | (50)               | 45              |
| Net Income   | \$ 2,447           | \$ 3,910        |
| Basic and Diluted Earnings per Share (Notes 3 and 7)           | \$ .20             | \$ .32          |
| Weighted Average Shares (Notes 3 and 7):                       |                    |                 |
| Basic  | 12,277             | 12,257          |
| Diluted  | 12,294             | 12,301          |

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

KADANT INC.

Consolidated Statement of Income  
(Unaudited)

|  | Six Months Ended |                 |
|--|------------------|-----------------|
| (In thousands except per share amounts)  | June 30,<br>2001 | July 1,<br>2000 |
| Revenues   | \$115,632        | \$118,487       |
| Costs and Operating Expenses:  |                  |                 |
| Cost of revenues   | 72,280           | 72,537          |
| Selling, general, and administrative expenses (Notes 9 and 10)   | 30,441           | 31,580          |
| Research and development expenses  | 3,663            | 3,816           |
| Gain on sale of property   | -                | (971)           |
|  | 106,384          | 106,962         |
| Operating Income   | 9,248            | 11,525          |
| Interest Income  | 3,953            | 5,194           |
| Interest Expense   | (3,744)          | (3,755)         |
| Income Before Provision for Income Taxes, Minority Interest, and Cumulative Effect of Change in Accounting Principle | 9,457            | 12,964          |
| Provision for Income Taxes   | 3,955            | 5,300           |
| Minority Interest (Income) Expense (Note 5)  | (74)             | 194             |
| Income Before Cumulative Effect of Change in Accounting Principle  | 5,576            | 7,470           |
| Cumulative Effect of Change in Accounting Principle (net of income taxes of \$580)                                   | -                | (870)           |
| Net Income   | \$ 5,576         | \$ 6,600        |
| Basic and Diluted Earnings per Share Before Cumulative Effect of Change in Accounting Principle (Notes 3 and 7)      | \$ .45           | \$ .61          |
| Basic and Diluted Earnings per Share (Notes 3 and 7)   | \$ .45           | \$ .54          |
| Weighted Average Shares (Notes 3 and 7):   |                  |                 |
| Basic  | 12,277           | 12,253          |
| Diluted  | 12,292           | 12,310          |

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

KADANT INC.

Consolidated Statement of Cash Flows  
(Unaudited)

|  | Six Months Ended |                  |
|--|------------------|------------------|
| (In thousands)   | June 30,<br>2001 | July 1,<br>2000  |
| <hr style="border-top: 1px dashed black;"/>  |                  |                  |
| <b>Operating Activities:</b>   |                  |                  |
| Net income   | \$ 5,576         | \$ 6,600         |
| Adjustments to reconcile net income to net cash provided by operating activities:    |                  |                  |
| Cumulative effect of change in accounting principle                                  | -                | 870              |
| Depreciation and amortization  | 4,720            | 4,842            |
| Provision for losses on accounts receivable  | 635              | 742              |
| Minority interest (income) expense (Note 5)  | (74)             | 194              |
| Gain on sale of property   | -                | (971)            |
| Other noncash items  | (190)            | (43)             |
| Changes in current accounts, excluding the effects of acquisitions and dispositions: |                  |                  |
| Accounts receivable  | 7,674            | 12,295           |
| Inventories and unbilled contract costs and fees                                     | (4,808)          | (2,326)          |
| Other current assets   | (2,705)          | (40)             |
| Accounts payable   | 2,535            | (775)            |
| Other current liabilities  | (65)             | (10,865)         |
|  | -----            | -----            |
| Net cash provided by operating activities  | 13,298           | 10,523           |
|  | -----            | -----            |
| <b>Investing Activities:</b>   |                  |                  |
| Acquisitions, net of cash acquired   | -                | (2,998)          |
| Acquisition of capital equipment and technology                                      | -                | (1,200)          |
| Proceeds from sale of property   | -                | 3,909            |
| Advances (to) from affiliate, net  | 2,206            | (14,039)         |
| Purchases of available-for-sale investments  | -                | (18,500)         |
| Proceeds from maturities of available-for-sale investments                           | 68,671           | 33,549           |
| Purchases of property, plant, and equipment  | (2,390)          | (2,689)          |
| Payments received on note for sale of property                                       | 1,200            | -                |
| Other, net   | 46               | 2                |
|  | -----            | -----            |
| Net cash provided by (used in) investing activities                                  | 69,733           | (1,966)          |
|  | -----            | -----            |
| <b>Financing Activities:</b>   |                  |                  |
| Net proceeds from issuance of Company and subsidiary common stock                    | 321              | 448              |
| Repayments of long-term obligations  | (509)            | -                |
|  | -----            | -----            |
| Net cash provided by (used in) financing activities                                  | (188)            | 448              |
|  | -----            | -----            |
| Exchange Rate Effect on Cash   | 451              | (2,486)          |
|  | -----            | -----            |
| Increase in Cash and Cash Equivalents  | 83,294           | 6,519            |
| Cash and Cash Equivalents at Beginning of Period                                     | 62,461           | 39,254           |
|  | -----            | -----            |
| Cash and Cash Equivalents at End of Period   | <u>\$145,755</u> | <u>\$ 45,773</u> |
|  | =====            | =====            |

KADANT INC.

Consolidated Statement of Cash Flows (continued)  
(Unaudited)

|   | Six Months Ended |                 |
|---|------------------|-----------------|
| (In thousands)  | June 30,<br>2001 | July 1,<br>2000 |
| Noncash Activities:   |                  |                 |
| Fair value of assets of acquired companies  | \$ -             | \$ 5,285        |
| Cash paid for acquired companies  | -                | (3,411)         |
| Note payable for acquired companies   | -                | (795)           |
|   | -----            | -----           |
| Liabilities assumed of acquired companies   | \$ -             | \$ 1,079        |
|   | =====            | =====           |
| Amounts forgiven in exchange for the 49% minority interest<br>in NEXT Fiber Products (Note 5) | \$ 2,053         | \$ -            |
|   | =====            | =====           |

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

KADANT INC.

Notes to Consolidated Financial Statements

1. General

The interim consolidated financial statements presented have been prepared by Kadant Inc., (the Company, formerly Thermo Fibertek Inc.) (Note 7) without audit and, in the opinion of management, reflect all adjustments of a normal recurring nature necessary for a fair statement of the financial position at June 30, 2001, the results of operations for the three- and six-month periods ended June 30, 2001, and July 1, 2000, and the cash flows for the six-month periods ended June 30, 2001, and July 1, 2000. Interim results are not necessarily indicative of results for a full year.

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

2. Comprehensive Income

Comprehensive income combines net income and "other comprehensive items" that represent certain amounts that are reported as components of shareholders' investment in the accompanying balance sheet, including foreign currency translation adjustments, unrealized net of tax gains and losses on available-for-sale investments, and deferred gains and losses on foreign currency contracts (Note 6). During the second quarter of 2001 and 2000, the Company had comprehensive income of \$803,000 and comprehensive loss of \$255,000, respectively. During the first six months of 2001 and 2000, the Company had comprehensive income of \$4,838,000 and \$1,389,000, respectively.

3. Earnings per Share

Basic and diluted earnings per share were calculated as follows:

| (In thousands except per share amounts)  | Three Months Ended |                 | Six Months Ended |                 |
|--|--------------------|-----------------|------------------|-----------------|
|  | June 30,<br>2001   | July 1,<br>2000 | June 30,<br>2001 | July 1,<br>2000 |
| Basic  |                    |                 |                  |                 |
| Income Before Cumulative Effect of Change in Accounting Principle                  | \$ 2,447           | \$ 3,910        | \$ 5,576         | \$ 7,470        |
| Cumulative Effect of Change in Accounting Principle (net of income taxes of \$580) | -                  | -               | -                | (870)           |
| Net Income   | \$ 2,447           | \$ 3,910        | \$ 5,576         | \$ 6,600        |
| Weighted Average Shares  | 12,277             | 12,257          | 12,277           | 12,253          |
| Basic Earnings per Share:  |                    |                 |                  |                 |
| Income Before Cumulative Effect of Change in Accounting Principle                  | \$ .20             | \$ .32          | \$ .45           | \$ .61          |
| Change in Accounting Principle   | -                  | -               | -                | (.07)           |
|  | \$ .20             | \$ .32          | \$ .45           | \$ .54          |



KADANT INC.

3. Earnings per Share (continued)

| (In thousands except per share amounts)  | Three Months Ended |                 | Six Months Ended |                 |
|--|--------------------|-----------------|------------------|-----------------|
|  | June 30,<br>2001   | July 1,<br>2000 | June 30,<br>2001 | July 1,<br>2000 |
| <hr/>  |                    |                 |                  |                 |
| Diluted  |                    |                 |                  |                 |
| Income Before Cumulative Effect of Change in Accounting Principle                  | \$ 2,447           | \$ 3,910        | \$ 5,576         | \$ 7,470        |
| Cumulative Effect of Change in Accounting Principle (net of income taxes of \$580) | -                  | -               | -                | (870)           |
| Net Income   | \$ 2,447           | \$ 3,910        | \$ 5,576         | \$ 6,600        |
| Effect of Majority-owned Subsidiary's Dilutive Securities                          | -                  | (3)             | -                | (7)             |
| Income Available to Common Shareholders, as Adjusted                               | \$ 2,447           | \$ 3,907        | \$ 5,576         | \$ 6,593        |
| Weighted Average Shares  | 12,277             | 12,257          | 12,277           | 12,253          |
| Effect of Stock Options  | 17                 | 44              | 15               | 57              |
| Weighted Average Shares, as Adjusted   | 12,294             | 12,301          | 12,292           | 12,310          |
| Diluted Earnings per Share:  |                    |                 |                  |                 |
| Income Before Cumulative Effect of Change in Accounting Principle                  | \$ .20             | \$ .32          | \$ .45           | \$ .61          |
| Change in Accounting Principle   | -                  | -               | -                | (.07)           |
|  | \$ .20             | \$ .32          | \$ .45           | \$ .54          |
|  | =====              | =====           | =====            | =====           |

Options to purchase 401,400 and 194,200 shares of common stock for the second quarter of 2001 and 2000, respectively, and 415,900 and 186,000 shares of common stock for the first six months of 2001 and 2000, respectively, were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price for the common stock and their effect would be antidilutive.

In addition, the computation of diluted earnings per share for each period excludes the effect of assuming the conversion of the Company's \$153,000,000 principal amount of 4 1/2% subordinated convertible debentures, convertible at \$60.50 per share, because the effect would be antidilutive.

KADANT INC.

4. Business Segment Information

|  | Three Months Ended |                 | Six Months Ended |                 |
|--|--------------------|-----------------|------------------|-----------------|
| (In thousands)   | June 30,<br>2001   | July 1,<br>2000 | June 30,<br>2001 | July 1,<br>2000 |
| <b>Revenues:</b>   |                    |                 |                  |                 |
| Pulp and Papermaking Equipment and Systems   | \$ 54,686          | \$ 58,821       | \$110,673        | \$114,018       |
| Composite and Fiber-based Products (a)   | 2,046              | 1,746           | 4,959            | 4,479           |
| Intersegment sales elimination (b)   | -                  | (2)             | -                | (10)            |
|  | \$ 56,732          | \$ 60,565       | \$115,632        | \$118,487       |
|  | =====              | =====           | =====            | =====           |
| <b>Income Before Provision for Income Taxes, Minority Interest, and Cumulative Effect of Change in Accounting Principle:</b> |                    |                 |                  |                 |
| Pulp and Papermaking Equipment and Systems   | \$ 6,404           | \$ 7,169        | \$ 13,383        | \$ 14,054       |
| Composite and Fiber-based Products (a)   | (1,253)            | (738)           | (2,236)          | (1,041)         |
| Corporate (c)  | (959)              | (527)           | (1,899)          | (1,488)         |
|  | 4,192              | 5,904           | 9,248            | 11,525          |
| Total Operating Income   | 4,192              | 5,904           | 9,248            | 11,525          |
| Interest Income (Expense), Net   | (59)               | 826             | 209              | 1,439           |
|  | \$ 4,133           | \$ 6,730        | \$ 9,457         | \$ 12,964       |
|  | =====              | =====           | =====            | =====           |
| <b>Capital Expenditures:</b>   |                    |                 |                  |                 |
| Pulp and Papermaking Equipment and Systems   | \$ 348             | \$ 352          | \$ 732           | \$ 720          |
| Composite and Fiber-based Products   | 864                | 969             | 1,658            | 1,969           |
|  | \$ 1,212           | \$ 1,321        | \$ 2,390         | \$ 2,689        |
|  | =====              | =====           | =====            | =====           |

- (a) Reflects the sale of the Company's fiber-recovery and water-clarification services plant in September 2000.
- (b) Intersegment sales are accounted for at prices that are representative of transactions with unaffiliated parties.
- (c) Primarily general and administrative expenses. Includes gain on sale of property of \$1.0 million in the 2000 periods.

5. Acquisition of Composites Venture Minority Interest

In January 2001, the Company's Thermo Fibergen subsidiary acquired the outstanding 49% equity interest in NEXT Fiber Products, Inc. from the minority investors (the Seller). Next Fiber Products was a joint venture formed in 1999 to develop, produce, and market fiber-based composite products primarily for the building industry. In exchange for the 49% minority interest, Thermo Fibergen agreed to forgive \$2,053,000 due from the Seller, which related to the Seller's investment in NEXT Fiber Products. The excess of assigned fair value of net assets acquired from the buyout over the acquisition costs resulted in a reduction in the intangible asset recorded at the time of Thermo Fibergen's initial investment in NEXT Fiber Products.

6. Recent Accounting Pronouncement

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

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

The Company records its currency exchange contracts at fair value in its consolidated balance sheet as other current assets or other accrued expenses and, for cash flow hedges, the related gains or losses on these contracts are deferred as a component of other comprehensive items. These deferred gains and losses are recognized in income in the period in which the underlying anticipated transaction occurs. Unrealized gains and losses resulting from the impact of currency exchange rate movements on fair value hedges are recognized in earnings in the period in which the exchange rates change and offset the currency gains and losses on the underlying exposure being hedged.

7. Name Change and Reverse Stock Split

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

8. Spin Off

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

9. Corporate Services Agreement

Prior to the spin off, the Company and Thermo Electron were parties to a corporate services agreement under which Thermo Electron's corporate staff provided certain administrative services for which the Company was assessed an annual fee equal to 0.8% of the Company's consolidated revenues. Effective April 2001, the fee under this agreement was reduced to 0.6% for the fiscal quarter ending June 30, 2001, and effective July 1, 2001, the fee was reduced to 0.4% of the Company's consolidated revenues for the fiscal quarter ending September 29, 2001. The corporate services agreement terminated as of the Spinoff Date and was replaced by a transition services agreement (Note 10).

10. Subsequent Events

Plan and Agreement of Distribution

In connection with the spin off, the Company and Thermo Electron have entered into a plan and agreement of distribution. The agreement provides, among other things, for restrictions relating to the Company's ability to use cash or incur debt during the time that Thermo Electron continues to guarantee the Company's \$153.0 million, 4 1/2% subordinated convertible debentures due 2004, and Thermo Fibergen's obligations to redeem the outstanding shares of Thermo Fibergen that are not held by the Company. These restrictions include financial covenants requiring (1) the ratio of the Company's net indebtedness to net capitalization not to exceed 40% and (2) the sum of the Company's (a) operating income (excluding restructuring and other unusual items (such as gains on sales of assets) included in operating income), (b) amortization of goodwill and other intangible assets, and (c) interest income, to be at least four times greater than interest expense. In the event that the Company fails to comply with the financial covenants and has not cured its noncompliance within the applicable cure period, the Company will be obligated to relieve Thermo Electron of its obligations under all of its outstanding guarantees of the Company's performance and payment in connection with the Company's debentures and Thermo Fibergen's obligations to redeem outstanding shares of Thermo Fibergen common stock. If required to satisfy this obligation to Thermo Electron, the Company could, among other things, refinance the Company's debentures, conduct an exchange offer for the Company's debentures or all of Thermo Fibergen's common stock subject to outstanding Thermo Fibergen redemption rights, or repay in full the underlying obligation. In addition, in the event that the Company undergoes a change in control, the Company has agreed to fully cash collateralize or back with one or more letters of credit all of the Company's obligations under the debentures and in connection with the redemption of outstanding shares of Thermo Fibergen common stock. The Company is in compliance with all covenants of the agreement.

Transition Services Agreement

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

Tax Matters Agreement

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

## 10. Subsequent Events (continued)

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

## Stock Option Exchange

In connection with the spin off, options to purchase shares of Thermo Electron common stock held by the Company's employees were exchanged for options to purchase 566,900 shares of the Company's common stock. The resulting options in the Company's common stock maintained their intrinsic value, and their original option periods and vesting provisions in accordance with the methodology set forth in the Financial Accounting Standards Board (FASB) Interpretation No. 44 "Accounting for Certain Transactions Involving Stock Compensation."

## Preferred Stock

On May 15, 2001, at the annual meeting of the Company's shareholders, the shareholders voted to approve an amendment, previously adopted by the Company's Board of Directors, to the Company's Certificate of Incorporation to authorize 5,000,000 shares of preferred stock, \$.01 par value per share, for issuance by the Company's Board of Directors without further shareholder approval. Subsequently, the Board of Directors designated 15,000 shares of such preferred stock as Series A junior participating preferred stock for issuance under the Company's Shareholder Rights Plan (see below). The charter amendment effecting these actions was incorporated into the Company's restated Certificate of Incorporation filed on August 7, 2001.

## Shareholder Rights Plan

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

10. Subsequent Events (continued)

Recent Accounting Pronouncement

In July 2001, the Financial Accounting Standards Board released for issuance Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS No. 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Under SFAS No. 142, effective for the fiscal year beginning December 30, 2001, amortization of goodwill to earnings will cease and instead, the carrying value of goodwill will be evaluated for impairment on at least an annual basis. Amortization of goodwill, on an after-tax basis, for the three-month and six-month periods ended June 30, 2001, was \$588,000 and \$1,172,000, respectively. The Company is evaluating the impact of these standards and has not yet determined the effect, if any, of adoption of the impairment requirement on its financial statements.

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

-----

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

Overview

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

Prior to our incorporation, we operated as a division of Thermo Electron Corporation. We were incorporated in Delaware in November 1991 as a wholly owned subsidiary of Thermo Electron. We conducted an initial public offering of our common stock in November 1992 and became a majority-owned subsidiary of Thermo Electron. On July 12, 2001, we changed our name from Thermo Fibertek Inc. to Kadant Inc., and on August 8, 2001, we were spunoff from Thermo Electron and became a fully independent public company (Note 9).

Pulp and Papermaking Equipment and Systems Segment

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

- custom-engineered systems and equipment for the preparation of wastepaper for conversion into recycled paper;

>

KADANT INC.

Overview (continued)

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

Composite and Fiber-based Products Segment

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

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

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

Dryers and Pollution-control Equipment Segment

Prior to February 1999, we also operated in the Dryers and Pollution-control Equipment segment, which consisted of our Thermo Wisconsin Inc. subsidiary. This segment manufactured and marketed dryers and pollution-control equipment for the printing, papermaking and converting industries. In February 1999, we sold our Thermo Wisconsin subsidiary for \$13.6 million in cash.

International Sales

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

Industry Outlook

Our products are primarily sold to the pulp and paper industry. The paper industry is currently in a relatively severe down cycle, with falling pulp and paper prices and decreased capital spending. As a consequence, the industry has gone through a major consolidation. As paper companies continue to consolidate, they frequently reduce capacity. This trend, along with paper companies' actions to quickly reduce operating rates and restrict capital spending programs when they perceive weakness in their markets, has adversely affected our business. We expect that there

## Overview (continued)

will continue to be a significant amount of downtime in the pulp and paper industry in 2001. This, coupled with the strong U.S. dollar and high energy costs, will continue to produce a weak market environment that will soften demand for our products in the foreseeable future. Our results for 2001 and possibly 2002 will be affected by the ongoing weak market conditions in the pulp and paper industry. In the longer term, we expect the consolidation in the paper industry and improved capacity management will be favorable both to paper companies and to their suppliers. In light of these factors, we expect earnings in the third quarter of 2001 for the company overall to be in the range of \$.15 to \$.20 per share, on revenues of \$55 to \$60 million. For the year 2001, we expect earnings per share of \$.80 to \$.90, on revenues of \$225 to \$230 million. Looking ahead to 2002, we estimate earnings for the year to increase to \$.90 to \$1.05 per share by focusing on a more favorable product mix that includes higher-margin aftermarket sales and reducing operating expenses in our businesses that serve the pulp and paper industry, as well as lowering operating losses in the composites business. Revenues in 2002 are expected to be between \$225 and \$230 million. In the Composite and Fiber-based Products segment, we expect our growth will primarily come from our recently introduced composite building products line, which consists of soundwall systems, decking, privacy fencing and roofing tiles. Although startups are difficult to forecast, our estimate of revenues from this business for each of the remaining quarters in 2001 is \$300,000 to \$500,000, and for the year 2001 just below \$2 million. Revenues in 2002 are expected to be \$4 to \$6 million from sales of composites. These results represent our lower expectations as we work to expand our distribution network for these fiber-based building materials. We believe that the market for composite building products will grow as consumer awareness of the advantages of these products increases their acceptance as an alternative to traditional wood products.

## Results of Operations

## Second Quarter 2001 Compared With Second Quarter 2000

## Revenues

Revenues decreased to \$56.7 million in the second quarter of 2001 from \$60.6 million in the second quarter of 2000. The unfavorable effects of currency translation due to the strengthening in value of the U.S. dollar relative to other currencies in countries in which we operate decreased revenues at the Papermaking Equipment segment by \$1.0 million in the second quarter of 2001.

Pulp and Papermaking Equipment and Systems Segment. Excluding the results of acquisitions and the effect of currency translation, revenues in our Papermaking Equipment segment decreased \$3.4 million, or 6%. Revenues from that segment's accessories and water management product lines decreased \$1.7 million and \$1.3 million, respectively, primarily as a result of a decrease in demand in North America due to adverse market conditions. Revenues from the Papermaking Equipment segment's stock-preparation equipment product line decreased \$0.3 million as a result of a decrease in sales in North America, which was largely offset by an increase in sales in Europe. We expect relatively little growth in 2001 in North America due to weak demand, while Europe is expected to be slightly stronger. We expect to see stronger demand for our products and systems in developing markets, such as China.

Composite and Fiber-based Products Segment. The Composite and Fiber-based Products segment revenues increased \$0.3 million, primarily due to \$0.4 million of sales from its recently introduced composite building products and \$0.3 million increase in sales from the fiber-based products business. These increases were offset in part by a \$0.4 million decrease in revenues as a result of the sale of the fiber-recovery and water-clarification services plant in September 2000.



>

KADANT INC.

Second Quarter 2001 Compared With Second Quarter 2000 (continued)

-----

Gross Profit Margin

The gross profit margin decreased to 36% in the second quarter of 2001 from 37% in the second quarter of 2000. The gross profit margin decreased at the Composite and Fiber-based Products segment, primarily due to the absence in 2001 of higher-margin revenues from the fiber-recovery and water-clarification services plant, as well as negative gross profit margins as a result of startup efforts at its new composite building products business. The gross profit margin was unchanged at 37% at the Papermaking Equipment segment in the second quarters of 2001 and 2000.

Other Operating Expenses

Selling, general, and administrative expenses as a percentage of revenues remained unchanged at 26% in the second quarters of 2001 and 2000. Selling, general, and administrative expenses decreased to \$14.6 million in 2001 from \$15.7 million in 2000 due to decreased general and administrative expenses in the Papermaking Equipment segment and the absence in the 2001 period of a \$0.6 million charge for a customer dispute expensed in 2000. Prior to the spin off, the Company and Thermo Electron were parties to a corporate services agreement under which Thermo Electron's corporate staff provided certain administrative services, for which the Company was assessed an annual fee equal to 0.8% of the Company's consolidated revenues. Effective April 2001, the fee under this agreement was reduced to 0.6%, 0.4%, and 0.2% for the fiscal quarters ending June 30, 2001, September 29, 2001, and December 29, 2001, respectively, plus out-of-pocket and third party expenses. The corporate services agreement terminated as of the Spinoff Date and was replaced by a transition services agreement with the same fee structure (Notes 9 and 10).

Research and development expenses decreased slightly to \$1.9 million in the second quarter of 2001, compared with \$2.0 million in the second quarter of 2000, or 3% of revenues in both periods. We expect research and development expenses to increase as we develop new products at our composite building products business.

Gain on Sale of Property

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

Interest Income and Expense

Interest income decreased to \$1.8 million in the second quarter of 2001 from \$2.7 million in the second quarter of 2000, due to lower average invested balances and lower prevailing interest rates. We expect interest income to decrease in 2001 as a result of lower cash balances due to the September 2000 redemption and the expected September 2001 redemption of Thermo Fibergen's common stock, as well as lower prevailing interest rates. Interest expense was unchanged at \$1.9 million in the second quarters of 2001 and 2000.

Income Taxes

The effective tax rate was 42% in the second quarter of 2001, compared with 41% in the second quarter of 2000. The effective tax rates exceeded the statutory federal income tax rate primarily due to the impact of state income taxes and nondeductible expenses.

<

>

KADANT INC.

Second Quarter 2001 Compared With Second Quarter 2000 (continued)

-----

Minority Interest

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

Contingency

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

First Six Months 2001 Compared With First Six Months 2000

-----

Revenues

Revenues decreased to \$115.6 million in the first six months of 2001 from \$118.5 million in the first six months of 2000. The unfavorable effects of currency translation due to the strengthening in value of the U.S. dollar relative to other currencies in countries in which we operate decreased revenues at the Papermaking Equipment segment by \$3.0 million in the first six months of 2001.

Pulp and Papermaking Equipment and Systems Segment. Excluding the results of acquisitions and the effect of currency translation, revenues in our Papermaking Equipment segment decreased \$1.1 million, or 1%. Revenues from that segment's stock-preparation equipment product line increased \$3.2 million primarily as a result of an increase in sales in Europe, offset in part by a decrease in sales in North America. Revenues from the Papermaking Equipment segment's accessories and water management product lines decreased \$3.2 million and \$0.9 million, respectively, primarily as a result of a decrease in demand in North America due to adverse market conditions.

Composite and Fiber-based Products Segment. The Composite and Fiber-based Products segment revenues increased \$0.5 million, primarily due to \$1.3 million of sales from its recently introduced composite building products. This increase was offset in part by a \$0.7 million decrease in revenues as a result of the sale of the fiber-recovery and water-clarification services plant in September 2000.

Gross Profit Margin

The gross profit margin decreased to 37% in the first six months of 2001 from 39% in the first six months of 2000. The gross profit margin decreased at the Composite and Fiber-based Products segment, due to an increase of approximately \$0.4 million in the cost of natural gas at the fiber-based products business in the first six months of 2001, the absence in 2001 of higher-margin revenues from the fiber-recovery and water-clarification services plant and negative gross profit margins as a result of startup efforts at its new composite building products business. The gross profit margin was unchanged at 39% at the Papermaking Equipment segment in the first six months of 2001 and 2000.

Other Operating Expenses

Selling, general, and administrative expenses as a percentage of revenues remained relatively unchanged at 26% in the first six months of 2001 compared with 27% in 2000. Selling, general, and administrative expenses decreased to \$30.4 million in 2001 from \$31.6 million in 2000 due to the reasons discussed in the results of operations for the second quarter.

<

>

KADANT INC.

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

-----

Research and development expenses decreased slightly to \$3.7 million in the first six months of 2001, compared with \$3.8 million in the first six months of 2000, or 3% of revenues in both periods.

Gain on Sale of Property

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

Interest Income and Expense

Interest income decreased to \$4.0 million in the first six months of 2001 from \$5.2 million in the first six months of 2000, due to lower average invested balances and lower prevailing interest rates. Interest expense was relatively unchanged at \$3.7 million in the first six months of 2001 compared with \$3.8 million in the first six months of 2000.

Income Taxes

The effective tax rate was 42% in the first six months of 2001 and 41% in the first six months of 2000. The effective tax rates exceeded the statutory federal income tax rate primarily due to the impact of state income taxes and nondeductible expenses.

Minority Interest

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

Cumulative Effect of Change in Accounting Principle

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

Liquidity and Capital Resources

Consolidated working capital was \$180.3 million at June 30, 2001, compared with \$173.1 million at December 30, 2000. Included in working capital are cash, cash equivalents, and available-for-sale investments of \$163.2 million at June 30, 2001, compared with \$148.6 million at December 30, 2000. In addition, we had \$3.5 million and \$5.7 million invested in an advance to affiliate as of June 30, 2001 and December 30, 2000, respectively. Of the total cash, cash equivalents, and available-for-sale investments at June 30, 2001, \$12.0 million and \$7.3 million was held by our majority-owned Thermo Fibergen and Fiberprep Inc. subsidiaries, respectively, and the remainder was held by us and our wholly owned subsidiaries. At June 30, 2001, \$45.6 million of our cash, cash equivalents, and available-for-sale investments was held by our foreign subsidiaries.

During the first six months of 2001, \$13.3 million of cash was provided by operating activities compared with \$10.5 million in the first six months of 2000. A decrease in accounts receivable provided cash of \$7.7 million, primarily in the Papermaking Equipment segment's accessories and stock-preparation product lines due to improved collection efforts and the timing of payments, and to a lesser extent, the Company's overall decrease in revenues.

<

## Liquidity and Capital Resources (continued)

Inventories and unbilled contract costs and fees used cash of \$4.8 million, primarily in the accessories and stock-preparation product lines, including \$3.4 million related to an increase in inventories, and \$1.4 million related to an increase in unbilled contract costs and fees, due to the timing of billings. Cash of \$2.7 million was used for an increase in other current assets, primarily in the accessories and stock-preparation product lines and, to a lesser extent, an increase in deferred tax asset at the Composite and Fiber-based Products segment. An increase in accounts payable provided \$2.5 million of cash primarily in the accessories and stock-preparation product lines due to the timing of payments.

Our investing activities, excluding available-for-sale investments and advance to affiliate activity, used \$1.1 million of cash in the first six months of 2001, compared with \$3.0 million in the first six months of 2000. During the first six months of 2001, we purchased property, plant, and equipment for \$2.4 million, including \$1.7 million at Thermo Fibergen, offset in part by collection of \$1.2 million from a note receivable related to Thermo Fibergen's September 2000 sale of its fiber-recovery and water-clarification systems plant.

Our financing activities used \$0.2 million of cash in the first six months of 2001, compared with \$0.4 million of cash provided by financing activities in 2000. During the first six months of 2001, we used \$0.5 million to fund the repayment of a long-term obligation, offset in part by \$0.3 million of cash provided by the issuance of Company and subsidiary common stock.

During the month of September 2000, the initial redemption period, holders of Thermo Fibergen's common stock and common stock redemption rights surrendered 2,713,951 shares of Thermo Fibergen's common stock at a redemption price of \$12.75 per share, for a total \$34.6 million. Thermo Fibergen used available working capital to fund the payment and retired these shares immediately following the redemption. Holders of a redemption right have the option to require Thermo Fibergen to redeem one share of Thermo Fibergen's common stock at a redemption price of \$12.75 per share in September 2001, the next and final redemption period. A redemption right may only be exercised if the holder owns a share of Thermo Fibergen's common stock at the same time. As of June 30, 2001, there were 2,001,049 redemption rights outstanding and 1,119,499 shares of Thermo Fibergen's common stock held by persons other than us. To the extent the number of rights exceeds the number of shares of Thermo Fibergen's common stock held by persons other than us, the maximum redemption value that Thermo Fibergen would be required to pay is an amount equal to the redemption price of \$12.75 per share times the total number of shares of Thermo Fibergen's common stock outstanding held by persons other than us at the time of the redemption. At June 30, 2001, we expect this amount will not exceed \$17.0 million. The redemption rights are guaranteed, on a subordinated basis, by Thermo Electron, subject to certain conditions included in a plan and agreement of distribution (Note 10), but we are required to reimburse Thermo Electron if they make any payment under the guarantee. In addition, we have agreed to lend Thermo Fibergen up to \$15 million on commercially reasonable terms for the September 2001 redemption obligation and for working capital needs.

At June 30, 2001, we had \$76.6 million of undistributed foreign earnings that could be subject to tax if remitted to the U.S. We do not currently intend to repatriate undistributed foreign earnings into the U.S., and do not expect that this will have a material adverse effect on our current liquidity.

During the remainder of 2001, we plan to make expenditures for property, plant, and equipment of approximately \$3.0 million. Included in this amount is \$1.4 million for Thermo Fibergen, which intends to make capital expenditures to develop and expand its fiber-based composites business. This business will continue to require a significant amount of capital investment as the business grows. Our ability to use our cash and to incur additional debt will be limited by financial covenants in our post-distribution agreements with Thermo Electron (Note 10). We believe that our existing resources are sufficient to meet the capital requirements of our existing operations for the foreseeable future.

Liquidity and Capital Resources (continued)

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

Item 3 - Quantitative and Qualitative Disclosures About Market Risk

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

PART II - OTHER INFORMATION

Item 4 - Submission of Matters to a Vote of Security Holders

On May 15, 2001, at the Annual Meeting of Stockholders, the stockholders elected four incumbent directors to a one-year term expiring in 2002. The Directors elected at the meeting were: Francis L. McKone, Donald E. Noble, William A. Rainville, and Richard F. Syron. Mr. McKone and Mr. Noble each received 58,022,645 shares voted in favor of his election and 9,509 shares voted against. Mr. Rainville received 58,022,149 shares voted in favor of his election and 10,005 shares voted against. Dr. Syron received 58,022,600 shares voted in favor of his election and 9,554 shares voted against. No abstentions or broker "non-votes" were recorded in the election of directors. The voting results reported in this item have not been restated to reflect the Company's one-for-five reverse stock split.

At the Annual Meeting, the stockholders also approved proposals 2 through 11, amendments to our certificate of incorporation (the "Charter Proposals"), as follows:

- Proposal 2, to authorize the issuance of "blank check" preferred stock; 55,979,725 shares in favor, 207,884 shares against, 3,356 shares abstained, and 1,841,189 broker non-votes;
- Proposal 3, to require the affirmative vote of either (A) a majority of the directors present at a meeting of our Board of Directors (the "Board") at which a quorum is present or (B) the holders of at least 75% of the votes which all the stockholders would be entitled to cast, to adopt, amend, alter, or repeal the By-laws of the Company; 56,019,131 shares in favor, 169,154 shares against, 2,680 shares abstained, and 1,841,189 broker non-votes;
- Proposal 4, to fix the minimum size of the Board at three directors and establish a classified Board having three classes with staggered three-year terms; 56,008,432 shares in favor, 180,123 shares against, 2,410 shares abstained, and 1,841,189 broker non-votes;
- Proposal 5, to allow the removal of directors only for cause and only upon the affirmative vote of the holders of at least 75% of the votes cast in any annual election of the directors or class of directors and provide that any vacancy on the Board be filled only be a vote of the majority of directors then in office; 56,009,673 shares in favor, 179,162 shares against, 2,130 shares abstained, and 1,841,189 broker non-votes;
- Proposal 6, to require advance notice of stockholder nominations for election of directors and other business to be brought by stockholders before a meeting of stockholders in the manner provided by our By-laws; 57,835,387 shares in favor, 193,918 shares against, 2,849 shares abstained, and no broker non-votes;
- Proposal 7, to eliminate the ability of stockholders to take action by written consent without a meeting; 56,061,661 shares in favor, 125,982 shares against, 3,322 shares abstained, and 1,841,189 broker non-votes;

Item 4 - Submission of Matters to a Vote of Security Holders (continued)

- Proposal 8, to limit the ability to call special meetings of the stockholders to the Board, the chairman of the board and the chief executive officer or, if none, the president of the Company and to limit business transacted at any special meeting of stockholders to matters relating to the purposes stated in the notice calling that meeting; 57,898,404 shares in favor, 130,202 shares against, 3,548 shares abstained, and no broker non-votes;
- Proposal 9, to effect a reverse split of our Common Stock, \$.01 par value per share, pursuant to which each five shares of Common Stock then outstanding would be converted into one share of Common Stock; 57,864,547 shares in favor, 165,155 shares against, 2,452 shares abstained, and no broker non-votes;
- Proposal 10, to change the name of the Company to "Kadant Inc."; 57,944,338 shares in favor, 85,321 shares against, 2,495 shares abstained, and no broker non-votes; and
- Proposal 11, to consolidate the foregoing amendments and to update the language of the certificate of incorporation to eliminate certain ambiguities and to more closely follow the Delaware General Corporate Law and current corporate practice; 56,017,706 shares in favor, 168,420 shares against, 4,839 shares abstained, and 1,841,189 broker non-votes.

In addition, the stockholders approved the amendment of our equity incentive plan to increase the number of shares of Common Stock available under the plan by 8,000,000 shares, as follows: 55,930,032 shares were voted in favor, 259,045 shares were voted against, 1,888 shares abstained, and 1,841,189 broker non-votes were recorded. The stockholders also approved the amendment of our employee stock purchase plan to increase the number of shares of Common Stock available under the plan by 750,000 shares and to extend the term of the plan to November 1, 2010, as follows: 56,072,468 shares were voted in favor of the proposal, 116,243 shares were voted against, 2,254 shares abstained, and 1,841,189 broker non-votes were recorded.

Item 6 - Exhibits and Reports on Form 8-K

(a) Exhibits

See Exhibit Index on the page immediately preceding exhibits.

(b) Reports on Form 8-K

On June 19, 2001, the Company filed a Current Report on Form 8-K with respect to certain corporate transactions affecting the Company.

>

KADANT INC.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized as of the 14th day of August 2001.

KADANT INC.

/s/ Thomas M. O'Brien

-----  
Thomas M. O'Brien  
Chief Financial and Accounting Officer

<

KADANT INC.

EXHIBIT INDEX

| Exhibit<br>Number | Description of Exhibit  |
|-------------------|---|
| 3.1               | Amended and Restated Certificate of Incorporation of the Company, as filed with the Secretary of State of the State of Delaware on August 7, 2001.  |
| 3.2               | By-Laws of the Company, as amended and restated.  |
| 4.1               | Rights Agreement, dated as of July 16, 2001, between the Company and American Stock Transfer & Trust Company, which includes as Exhibit A the Form of Certificate of Designations, as Exhibit B the Form of Rights Certificate, and as Exhibit C the Summary of Rights to Purchase Preferred Stock (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K [File No. 1-11406], filed with the Commission on July 17, 2001), and incorporated herein by reference. |
| 10.1              | Form of Indemnification Agreement between the Company and its directors and officers.   |
| 10.2              | Form of Executive Retention Agreement between the Company and its executive officers (Each executive officer has a two-year agreement, except Mr. William A. Rainville, who has a three-year agreement).  |
| 10.3              | Plan and Agreement of Distribution, dated as of August 3, 2001, between the Company and Thermo Electron Corporation (filed as Exhibit 99.3 to the Company's Current Report on Form 8-K [File No. 1-11406] filed with the Commission on August 6, 2001), and incorporated in this document by reference.   |
| 10.4              | Transition Services Agreement, dated as of August 3, 2001, between the Company and Thermo Electron Corporation (filed as Exhibit 99.5 to the Company's Current Report on Form 8-K [File No. 1-11406] filed with the Commission on August 6, 2001), and incorporated herein by reference.  |
| 10.5              | Tax Matters Agreement, dated as of August 8, 2001, between the Company and Thermo Electron Corporation (filed as Exhibit 99.4 to the Company's Current Report on Form 8-K [File No. 1-11406] filed with the Commission on August 6, 2001), and incorporated herein by reference.  |



## EXECUTIVE RETENTION AGREEMENT

THIS AGREEMENT by and between KADANT INC., a Delaware corporation (the "Company"), and \_\_\_\_\_ (the "Executive") is made as of \*\*\*\*, \*\*\*\* (the "Effective Date").

WHEREAS, the Company recognizes that, as is the case with many publicly-held corporations, the possibility of a change in control of the Company exists and that such possibility, and the uncertainty and questions which it may raise among key personnel, may result in the departure or distraction of key personnel to the detriment of the Company and its stockholders;

WHEREAS, the Board of Directors of the Company (the "Board") has determined that appropriate steps should be taken to reinforce and encourage the continued employment and dedication of the Company's key personnel without distraction from the possibility of a change in control of the Company and related events and circumstances; and

NOW, THEREFORE, as an inducement for and in consideration of the Executive remaining in its employ, the Company agrees that the Executive shall receive the severance benefits set forth in this Agreement in the event the Executive's employment with the Company is terminated under the circumstances described below subsequent to a Change in Control (as defined in Section 1.1).

#### 1. Key Definitions.

As used herein, the following terms shall have the following respective meanings:

1.1 "Change in Control" means an event or occurrence set forth in any one or more of subsections (a) through (d) below (including an event or occurrence that constitutes a Change in Control under one of such subsections but is specifically exempted from another such subsection):

(a) the acquisition by an individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) (a "Person") of beneficial ownership of any capital stock of the Company if, after such acquisition, such Person beneficially owns (within the meaning of Rule 13d-3 promulgated under the Exchange Act) 40% or more of either (i) the then-outstanding shares of common stock of the Company (the "Outstanding Company Common Stock") or (ii) the combined voting power of the then-outstanding securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); provided, however, that for purposes of this subsection (a), the following acquisitions shall not constitute a Change in Control: (i) any acquisition by the Company, (ii) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company, or (iii) any acquisition by any corporation pursuant to a transaction which complies with clauses (i) and (ii) of subsection (c) of this Section 1.1; or

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

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

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

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

1.2 "Change in Control Date" means the first date during the Term (as defined in Section 2) on which a Change in Control occurs. Anything in this Agreement to the contrary notwithstanding, if (a) a Change in Control occurs, (b) the Executive's employment with the Company is terminated prior to the date on which the Change in Control occurs, and (c) it is reasonably demonstrated by the Executive that such

<

>

termination of employment (i) was at the request of a third party who has taken steps reasonably calculated to effect a Change in Control or (ii) otherwise arose in connection with or in anticipation of a Change in Control, then for all purposes of this Agreement the "Change in Control Date" shall mean the date immediately prior to the date of such termination of employment.

1.3 "Cause" means the Executive's willful engagement in illegal conduct or gross misconduct after the Change in Control Date which is materially and demonstrably injurious to the Company. For purposes of this Section 1.3, no act or failure to act by the Executive shall be considered "willful" unless it is done, or omitted to be done, in bad faith and without reasonable belief that the Executive's action or omission was in the best interests of the Company.

1.4 "Good Reason" means the occurrence, without the Executive's written consent, of any of the events or circumstances set forth in clauses (a) through (g) below. Notwithstanding the occurrence of any such event or circumstance, such occurrence shall not be deemed to constitute Good Reason if, prior to the Date of Termination specified in the Notice of Termination (each as defined in Section 3.2(a)) given by the Executive in respect thereof, such event or circumstance has been fully corrected and the Executive has been reasonably compensated for any losses or damages resulting therefrom (provided that such right of correction by the Company shall only apply to the first Notice of Termination for Good Reason given by the Executive).

(a) the assignment to the Executive of duties inconsistent in any material respect with the Executive's position (including status, offices, titles and reporting requirements), authority or responsibilities in effect immediately prior to the earliest to occur of (i) the Change in Control Date, (ii) the date of the execution by the Company of the initial written agreement or instrument providing for the Change in Control or (iii) the date of the adoption by the Board of Directors of a resolution providing for the Change in Control (with the earliest to occur of such dates referred to herein as the "Measurement Date") or a material diminution in such position, authority or responsibilities;

(b) a reduction in the Executive's annual base salary as in effect on the Measurement Date or as the same was or may be increased thereafter from time to time;

(c) the failure by the Company to (i) continue in effect any material compensation or benefit plan or program (including without limitation any life insurance, medical, health and accident or disability plan and any vacation or automobile program or policy) (a "Benefit Plan") in which the Executive participates or which is applicable to the Executive immediately prior to the Measurement Date, unless an equitable arrangement (embodied in an ongoing substitute or alternative plan) has been made with respect to such plan or program, (ii) continue the Executive's participation therein (or in such substitute or alternative plan) on a basis not materially less favorable than the basis existing immediately prior to the Measurement Date (iii) award cash

<

>

bonuses to the Executive in amounts and in a manner substantially consistent with past practice in light of the Company's financial performance or (iv) continue to provide any material fringe benefit enjoyed by Executive immediately prior to the Measurement Date;

(d) a change by the Company in the location at which the Executive performs his or her principal duties for the Company to a new location that is both (i) outside a radius of 50 miles from the Executive's principal residence immediately prior to the Measurement Date and (ii) more than 30 miles from the location at which the Executive performed his or her principal duties for the Company immediately prior to the Measurement Date; or a requirement by the Company that the Executive travel on Company business to a substantially greater extent than required immediately prior to the Measurement Date;

(e) the failure of the Company to obtain the agreement from any successor to the Company to assume and agree to perform this Agreement, as required by Section 6.1;

(f) a purported termination of the Executive's employment which is not effected pursuant to a Notice of Termination satisfying the requirements of Section 3.2(a); or

(g) any failure of the Company to pay or provide to the Executive any portion of the Executive's compensation or benefits due under any Benefit Plan within seven days of the date such compensation or benefits are due, or any material breach by the Company of this Agreement or any employment agreement with the Executive.

The Executive's right to terminate his or her employment for Good Reason shall not be affected by the Executive's incapacity due to physical or mental illness.

1.5 "Disability" means the Executive's absence from the full-time performance of the Executive's duties with the Company for 180 consecutive calendar days as a result of incapacity due to mental or physical illness which is determined to be total and permanent by a physician selected by the Company or its insurers and acceptable to the Executive or the Executive's legal representative.

2. Term of Agreement. This Agreement, and all rights and obligations of the parties hereunder, shall take effect upon the Effective Date and shall expire upon the first to occur of (a) the expiration of the Term (as defined below) if a Change in Control has not occurred during the Term, (b) the date 18 months after the Change in Control Date, if the Executive is still employed by the Company as of such later date, or (c) the fulfillment by the Company of all of its obligations under Sections 4 and 5.2 if the Executive's employment with the Company terminates within 18 months following the Change in Control Date. "Term" shall mean the period commencing as of the Effective Date and continuing in effect through December 31, 2004; provided, however, that commencing on January 1, 2004 and each January 1, thereafter, the Term shall be

<

>

automatically extended for one additional year unless, not later than 90 days prior to the scheduled expiration of the Term (or any extension thereof), the Company shall have given the Executive written notice that the Term will not be extended.

### 3. Employment Status; Termination Following Change in Control.

3.1 Not an Employment Contract. The Executive acknowledges that this Agreement does not constitute a contract of employment or impose on the Company any obligation to retain the Executive as an employee and that this Agreement does not prevent the Executive from terminating employment at any time. If the Executive's employment with the Company terminates for any reason and subsequently a Change in Control shall occur, the Executive shall not be entitled to any benefits hereunder except as otherwise provided pursuant to Section 1.2.

### 3.2 Termination of Employment.

(a) If the Change in Control Date occurs during the Term, any termination of the Executive's employment by the Company or by the Executive within 18 months following the Change in Control Date (other than due to the death of the Executive) shall be communicated by a written notice to the other party hereto (the "Notice of Termination"), given in accordance with Section 7. Any Notice of Termination shall: (i) indicate the specific termination provision (if any) of this Agreement relied upon by the party giving such notice, (ii) to the extent applicable, set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated and (iii) specify the Date of Termination (as defined below). The effective date of an employment termination (the "Date of Termination") shall be the close of business on the date specified in the Notice of Termination (which date may not be less than 15 days or more than 120 days after the date of delivery of such Notice of Termination), in the case of a termination other than one due to the Executive's death, or the date of the Executive's death, as the case may be. In the event the Company fails to satisfy the requirements of Section 3.2(a) regarding a Notice of Termination, the purported termination of the Executive's employment pursuant to such Notice of Termination shall not be effective for purposes of this Agreement.

(b) The failure by the Executive or the Company to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason or Cause shall not waive any right of the Executive or the Company, respectively, hereunder or preclude the Executive or the Company, respectively, from asserting any such fact or circumstance in enforcing the Executive's or the Company's rights hereunder.

(c) Any Notice of Termination for Cause given by the Company must be given within 90 days of the occurrence of the event(s) or circumstance(s) which constitute(s) Cause. Prior to any Notice of Termination for Cause being given (and prior to any termination for Cause being effective), the Executive shall

<

>

be entitled to a hearing before the Board of Directors of the Company at which the Executive may, at the Executive's election, be represented by counsel and at which the Executive shall have a reasonable opportunity to be heard. Such hearing shall be held on not less than 15 days prior written notice to the Executive stating the Board of Directors' intention to terminate the Executive for Cause and stating in detail the particular event(s) or circumstance(s) which the Board of Directors believes constitutes Cause for termination.

(d) Any Notice of Termination for Good Reason given by the Executive must be given within 90 days of the occurrence of the event(s) or circumstance(s) which constitute(s) Good Reason.

#### 4. Benefits to Executive.

4.1 Stock Acceleration. If the Change in Control Date occurs during the Term, then, effective upon the Change in Control Date, (a) each outstanding option to purchase shares of Common Stock of the Company held by the Executive shall become immediately exercisable in full and will no longer be subject to a right of repurchase by the Company and (b) each outstanding restricted stock award shall be deemed to be fully vested and will no longer be subject to a right of repurchase by the Company.

4.2 Compensation. If the Change in Control Date occurs during the Term and the Executive's employment with the Company terminates within 18 months following the Change in Control Date, the Executive shall be entitled to the following benefits:

(a) Termination Without Cause or for Good Reason. If the Executive's employment with the Company is terminated by the Company (other than for Cause, Disability or Death) or by the Executive for Good Reason within 18 months following the Change in Control Date, then the Executive shall be entitled to the following benefits:

(i) the Company shall pay to the Executive in a lump sum in cash within 30 days after the Date of Termination the aggregate of the following amounts:

(1) the sum of (A) the Executive's base salary through the Date of Termination, (B) the product of (x) the annual bonus paid or payable (including any bonus or portion thereof which has been earned but deferred) for the most recently completed fiscal year and (y) a fraction, the numerator of which is the number of days in the current fiscal year through the Date of Termination, and the denominator of which is 365 and (C) the amount of any compensation previously deferred by the Executive (together with any accrued interest or earnings thereon) and any accrued vacation pay, in each case to the extent not previously paid (the sum of the amounts described in clauses (A), (B), and (C) shall be hereinafter referred to as the "Accrued Obligations"); and

<

>

(2) the amount equal to (A) [three, two, one] multiplied by (b) the sum of (x) the Executive's highest annual base salary in any twelve-month period (on a rolling basis) during the five-year period prior to the Change in Control Date and (y) the Executive's highest annual bonus in any twelve-month period (on a rolling basis) during the five-year period prior to the Change in Control Date.

(ii) for [three, two, one] years after the Date of Termination, or such longer period as may be provided by the terms of the appropriate plan, program, practice or policy, the Company shall continue to provide benefits to the Executive and the Executive's family at least equal to those which would have been provided to them if the Executive's employment had not been terminated, in accordance with the applicable Benefit Plans in effect on the Measurement Date or, if more favorable to the Executive and the Executive's family, in effect generally at any time thereafter with respect to other peer executives of the Company and its affiliated companies; provided, however, that if the Executive becomes reemployed with another employer and is eligible to receive a particular type of benefits (e.g., health insurance benefits) from such employer on terms at least as favorable to the Executive and the Executive's family as those being provided by the Company, then the Company shall no longer be required to provide those particular benefits to the Executive and the Executive's family;

(iii) to the extent not previously paid or provided, the Company shall timely pay or provide to the Executive any other amounts or benefits required to be paid or provided or which the Executive is eligible to receive following the Executive's termination of employment under any plan, program, policy, practice, contract or agreement of the Company and its affiliated companies (such other amounts and benefits shall be hereinafter referred to as the "Other Benefits"); and

(iv) for purposes of determining eligibility (but not the time of commencement of benefits) of the Executive for retiree benefits to which the Executive is entitled, the Executive shall be considered to have remained employed by the Company until [three/two/one] years after the Date of Termination.

(b) Resignation without Good Reason; Termination for Death or Disability. If the Executive voluntarily terminates his or her employment with the Company within 18 months following the Change in Control Date, excluding a termination for Good Reason, or if the Executive's employment with the Company is terminated by reason of the Executive's death or Disability within 18 months following the Change in Control Date, then the Company shall (i) pay the Executive (or the Executive's estate, if applicable), in a lump sum in cash within 30 days after the Date of Termination, the Accrued Obligations and (ii) timely pay or provide to the Executive the Other Benefits.

(c) Termination for Cause. If the Company terminates the Executive's employment with the Company for Cause within 18 months following the Change in Control Date, then the Company shall (i) pay the Executive, in a lump sum in cash within 30 days after the Date of Termination, the sum of (A) the Executive's annual

<

>

base salary through the Date of Termination and (B) the amount of any compensation previously deferred by the Executive, in each case to the extent not previously paid, and (ii) timely pay or provide to the Executive the Other Benefits.

#### 4.3 Taxes.

(a) In the event that the Company undergoes a "Change in Ownership or Control" (as defined below), and thereafter, the Executive becomes eligible to receive "Contingent Compensation Payments" (as defined below) the Company shall, as soon as administratively feasible after the Executive becomes so eligible determine and notify the Executive (with reasonable detail regarding the basis for its determinations) (i) which of the payments or benefits due to the Executive following such Change in Ownership or Control constitute Contingent Compensation Payments, (ii) the amount, if any, of the excise tax (the "Excise Tax") payable pursuant to Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), by the Executive with respect to such Contingent Compensation Payment and (iii) the amount of the "Gross-Up Payment" (as defined below) due to the Executive with respect to such Contingent Compensation Payment. Within 30 days after delivery of such notice to the Executive, the Executive shall deliver a response to the Company (the "Executive Response") stating either (A) that the Executive agrees with the Company's determination pursuant to the preceding sentence or (B) that the Executive disagrees with such determination, in which case the Executive shall indicate which payment and/or benefits should be characterized as a Contingent Compensation Payment, the amount of the Excise Tax with respect to such Contingent Compensation Payment and the amount of the Gross-Up Payment due to the Executive with respect to such Contingent Compensation Payment. If the Executive states in the Executive Response that the Executive agrees with the Company's determination, the Company shall make the Gross-Up Payment to the Executive within three business days following delivery to the Company of the Executive Response. If the Executive states in the Executive Response that the Executive disagrees with the Company's determination, then, for a period of 15 days following delivery of the Executive Response, the Executive and the Company shall use good faith efforts to resolve such dispute. If such dispute is not resolved within such 15-day period, such dispute shall be settled exclusively by arbitration in Boston, Massachusetts, in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction. The Company shall, within three business days following delivery to the Company of the Executive Response, make to the Executive those Gross-Up Payments as to which there is no dispute between the Company and the Executive regarding whether they should be made. The balance of the Gross-Up Payments shall be made within three business days following the resolution of such dispute. The amount of any payments to be made to the Executive following the resolution of such dispute shall be increased by the amount of the accrued interest thereon computed at the prime rate announced from time to time by The Wall Street Journal compounded monthly from the date that such payments originally were due. In the event that the Executive fails to deliver an Executive Response on or before the required date, the Company's initial determination shall be final.

<



>

(b) For purposes of this Section 4.3, the following terms shall have the following respective meanings:

(i) "Change in Ownership or Control" shall mean a change in the ownership or effective control of the Company or in the ownership of a substantial portion of the assets of the Company determined in accordance with Section 280G(b)(2) of the Code.

(ii) "Contingent Compensation Payment" shall mean any payment (or benefit) in the nature of compensation that is made or supplied to a "disqualified individual" (as defined in Section 280G(c) of the Code) and that is contingent (within the meaning of Section 280G(b)(2)(A)(i) of the Code) on a Change in Ownership or Control of the Company.

(iii) "Gross-Up Payment" shall mean an amount equal to the sum of (i) the amount of the Excise Tax payable with respect to a Contingent Compensation Payment and (ii) the amount necessary to pay all additional taxes imposed on (or economically borne by) the Executive (including the Excise Taxes, state and federal income taxes and all applicable withholding taxes) attributable to the receipt of such Gross-Up Payment. For purposes of the preceding sentence, all taxes attributable to the receipt of the Gross-Up Payment shall be computed assuming the application of the maximum tax rates provided by law.

4.4 Outplacement Services. In the event the Executive is terminated by the Company (other than for Cause, Disability or Death), or the Executive terminates employment for Good Reason, within 18 months following the Change in Control Date, the Company shall provide outplacement services through one or more outside firms of the Executive's choosing up to an aggregate of \$[25,000, 20,000, 15,000] with such services to extend until the earlier of (i) 12 months following the termination of Executive's employment or (ii) the date the Executive secures full time employment.

4.5 Mitigation. The Executive shall not be required to mitigate the amount of any payment or benefits provided for in this Section 4 by seeking other employment or otherwise. Further, except as provided in Section 4.2(a)(ii), the amount of any payment or benefits provided for in this Section 4 shall not be reduced by any compensation earned by the Executive as a result of employment by another employer, by retirement benefits, by offset against any amount claimed to be owed by the Executive to the Company or otherwise.

<

>

## 5. Disputes.

5.1 Settlement of Disputes; Arbitration. All claims by the Executive for benefits under this Agreement shall be directed to and determined by the Board of Directors of the Company and shall be in writing. Any denial by the Board of Directors of a claim for benefits under this Agreement shall be delivered to the Executive in writing and shall set forth the specific reasons for the denial and the specific provisions of this Agreement relied upon. The Board of Directors shall afford a reasonable opportunity to the Executive for a review of the decision denying a claim. Any further dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration in Boston, Massachusetts, in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction.

5.2 Expenses. The Company agrees to pay as incurred, to the full extent permitted by law, all legal, accounting and other fees and expenses which the Executive may reasonably incur as a result of any claim or contest (regardless of the outcome thereof) by the Company, the Executive or others regarding the validity or enforceability of, or liability under, any provision of this Agreement or any guarantee of performance thereof (including as a result of any contest by the Executive regarding the amount of any payment or benefits pursuant to this Agreement), plus in each case interest on any delayed payment at the applicable Federal rate provided for in Section 7872(f)(2)(A) of the Code.

## 6. Successors.

6.1 Successor to Company. The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Company expressly to assume and agree to perform this Agreement to the same extent that the Company would be required to perform it if no such succession had taken place. Failure of the Company to obtain an assumption of this Agreement at or prior to the effectiveness of any succession shall be a breach of this Agreement and shall constitute Good Reason if the Executive elects to terminate employment, except that for purposes of implementing the foregoing, the date on which any such succession becomes effective shall be deemed the Date of Termination. As used in this Agreement, "Company" shall mean the Company as defined above and any successor to its business or assets as aforesaid which assumes and agrees to perform this Agreement, by operation of law or otherwise.

6.2 Successor to Executive. This Agreement shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If the Executive should die while any amount would still be payable to the Executive or the Executive's family hereunder if the Executive had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to the executors, personal representatives or administrators of the Executive's estate.

<

>

7. Notice. All notices, instructions and other communications given hereunder or in connection herewith shall be in writing. Any such notice, instruction or communication shall be sent either (i) by registered or certified mail, return receipt requested, postage prepaid, or (ii) prepaid via a reputable nationwide overnight courier service, in each case addressed to the Company, at 245 Wyman Street, Waltham, Massachusetts and to the Executive at the Executive's principal residence as currently reflected on the Company's records (or to such other address as either the Company or the Executive may have furnished to the other in writing in accordance herewith). Any such notice, instruction or communication shall be deemed to have been delivered five business days after it is sent by registered or certified mail, return receipt requested, postage prepaid, or one business day after it is sent via a reputable nationwide overnight courier service. Either party may give any notice, instruction or other communication hereunder using any other means, but no such notice, instruction or other communication shall be deemed to have been duly delivered unless and until it actually is received by the party for whom it is intended.

8. Miscellaneous.

8.1 Severability. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

8.2 Injunctive Relief. The Company and the Executive agree that any breach of this Agreement by the Company is likely to cause the Executive substantial and irrevocable damage and therefore, in the event of any such breach, in addition to such other remedies which may be available, the Executive shall have the right to specific performance and injunctive relief.

8.3 Governing Law. The validity, interpretation, construction and performance of this Agreement shall be governed by the internal laws of the Commonwealth of Massachusetts, without regard to conflicts of law principles.

8.4 Waivers. No waiver by the Executive at any time of any breach of, or compliance with, any provision of this Agreement to be performed by the Company shall be deemed a waiver of that or any other provision at any subsequent time.

8.5 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed to be an original but both of which together shall constitute one and the same instrument.

8.6 Tax Withholding. Any payments provided for hereunder shall be paid net of any applicable tax withholding required under federal, state or local law.

8.7 Entire Agreement. This Agreement sets forth the entire agreement of the parties hereto in respect of the subject matter contained herein and supersedes all prior agreements, promises, covenants, arrangements, communications, representations or

<

>

warranties, whether oral or written, by any officer, employee or representative of any party hereto in respect of the subject matter contained herein; and any prior agreement of the parties hereto in respect of the subject matter contained herein is hereby terminated and cancelled.

8.8 Amendments. This Agreement may be amended or modified only by a written instrument executed by both the Company and the Executive.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first set forth above.

KADANT INC.

-----  
By: William A. Rainville  
President and Chief Executive Officer

EXECUTIVE

-----  
[NAME OF EXECUTIVE]

## KADANT INC.

## INDEMNIFICATION AGREEMENT

This Agreement, made and entered into this \*\*th day of \*\*\*, \*\*\*\* ("Agreement"), by and between Kadant Inc., a Delaware corporation (the "Company"), and \*\*\* ("Indemnitee"):

WHEREAS, highly competent persons are becoming more reluctant to serve publicly-held corporations as directors or in other capacities unless they are provided with adequate protection through insurance or adequate indemnification against inordinate risks of claims and actions against them arising out of their service to, and activities on behalf of, the corporation;

WHEREAS, uncertainties relating to the continued availability of adequate directors and officers liability insurance ("D&O Insurance") and uncertainties relating to indemnification have increased the difficulty of attracting and retaining such persons;

WHEREAS, the Board of Directors of the Company (the "Board") has determined that the difficulty in attracting and retaining such persons is detrimental to the best interests of the Company's stockholders and that the Company should act to assure such persons that there will be increased certainty of such protection in the future;

WHEREAS, it is reasonable, prudent and necessary for the Company to obligate itself contractually to indemnify such persons so that they will serve or continue to serve the Company free from undue concern that they will not be so indemnified;

WHEREAS, Indemnitee is willing to serve, continue to serve and/or take on additional service for or on behalf of the Company on the condition that he or she be so indemnified and that such indemnification be so guaranteed;

NOW, THEREFORE, in consideration of the premises and the covenants contained herein, the Company and Indemnitee do hereby covenant and agree as follows:

1. Services by Indemnitee. Indemnitee agrees to serve or continue to serve as a director or officer of the Company. This Agreement shall not impose any obligation on Indemnitee or the Company to continue Indemnitee's position with the Company beyond any period otherwise applicable.

2. Indemnity. The Company shall indemnify, and shall advance Expenses (as hereinafter defined) to, Indemnitee as provided in this Agreement and to the fullest extent permitted by law.

3. General. Indemnitee shall be entitled to the rights of indemnification provided in this Section 3 if, by reason of his or her Corporate Status (as hereinafter defined), Indemnitee is, or is threatened to be made, a party to any threatened, pending, or

<

>

completed action, suit, arbitration, alternative dispute resolution proceeding, investigation, administrative hearing or other proceeding whether civil, criminal, administrative or investigative (other than an action, suit or proceeding covered by Section 4 hereof). Pursuant to this Section 3, Indemnitee shall be indemnified against Expenses, judgments, penalties, fines and/or amounts paid in settlement incurred by Indemnitee or on his or her behalf in connection with such action, suit, arbitration, alternative dispute resolution proceeding, investigation, administrative hearing or other proceeding whether civil, criminal, administrative or investigative or any claim, issue or matter therein and whether or not Indemnitee is made a party thereto, if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of the Company, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful.

4. Proceedings by or in the Right of the Company. In the case of any threatened, pending or completed action, suit or proceeding by or in the right of the Company, indemnification shall be made to the maximum extent permitted under Delaware law.

5. Indemnification for Expenses of a Party who is Wholly or Partly Successful. Notwithstanding any other provision of this Agreement, to the extent that Indemnatee is, by reason of his or her Corporate Status, a party to and is successful, on the merits or otherwise, in any action, suit, arbitration, alternative dispute resolution proceeding, investigation, administrative hearing or other proceeding whether civil, criminal, administrative or investigative, Indemnatee shall be indemnified against all Expenses incurred by Indemnatee or on his or her behalf in connection therewith. If Indemnatee is not wholly successful but is successful, on the merits or otherwise, as to one or more but less than all claims, issues or matters in such action, suit, arbitration, alternative dispute resolution proceeding, investigation, administrative hearing or other proceeding whether civil, criminal, administrative or investigative, the Company shall indemnify Indemnatee against all Expenses incurred by Indemnatee or on his or her behalf in connection with each successfully resolved claim, issue or matter. For purposes of this Section and without limitation, the termination of any claim, issue or matter by dismissal, or withdrawal with or without prejudice, shall be deemed to be a successful result as to such claim, issue or matter.

6. Advance of Expenses. The Company shall advance all Expenses incurred by or on behalf of Indemnatee in connection with any action, suit, arbitration, alternative dispute resolution proceeding, investigation, administrative hearing or other proceeding involving his or her Corporate Status whether civil, criminal, administrative or investigative within twenty (20) days after the receipt by the Company of a statement or statements from Indemnatee requesting such advance or advances from time to time, whether prior to or after final disposition of such action, suit, arbitration, alternative dispute resolution proceeding, investigation, administrative hearing or other proceeding whether civil, criminal, administrative or investigative. Such statement or statements shall reasonably evidence the Expenses incurred by Indemnatee and shall include or be preceded or accompanied by an undertaking by or on behalf of Indemnatee to repay any

<

<

>  
>  
Expenses advanced if it shall ultimately be determined that Indemnitee is not entitled to be indemnified against such Expenses, which undertaking shall be accepted by or on behalf of the Company without reference to the financial ability of Indemnitee to make repayment.

7. Procedure for Determination of Entitlement to Indemnification.

(a) To obtain indemnification under this Agreement, Indemnitee shall submit to the Company a written request, including therein or therewith such documentation and information as is reasonably available to Indemnitee and is reasonably necessary to determine whether and to what extent Indemnitee is entitled to indemnification. The Secretary of the Company shall, promptly upon receipt of such a request for indemnification, advise the Board in writing that Indemnitee has requested indemnification.

(b) Upon written request by Indemnitee for indemnification pursuant to Section 7(a) hereof, a determination, if required (but only to the extent required) by applicable law as a precondition to payment, with respect to Indemnitee's entitlement thereto shall be made in the specific case: (i) if a Change in Control (as hereinafter defined) shall have occurred, by Independent Counsel (as hereinafter defined) in a written opinion to the Board, a copy of which shall be delivered to Indemnitee (unless Indemnitee shall request that such determination be made by the Board or the stockholders, in which case the determination shall be made in the manner provided below in clauses (ii) or (iii)); (ii) if a Change of Control shall not have occurred, (A) by the Board by a majority vote of Disinterested Directors (as hereinafter defined), even if less than a quorum, or (B) by a committee of Disinterested Directors designated by a majority vote of Disinterested Directors, even if less than a quorum, or (C) if the Disinterested Directors so direct, by Independent Counsel in a written opinion to the Board, a copy of which shall be delivered to Indemnitee or (D) by the stockholders of the Company; or (iii) as provided in Section 8(b) of this Agreement; and, if it is so determined that Indemnitee is entitled to indemnification, payment to Indemnitee shall be made within ten (10) days after such determination. Indemnitee shall cooperate with the person, persons or entity making such determination with respect to Indemnitee's entitlement to indemnification, including providing to such person, persons or entity upon reasonable advance request any documentation or information which is not privileged or otherwise protected from disclosure and which is reasonably available to Indemnitee and reasonably necessary to such determination. Any costs or expenses (including attorney's fees and disbursements) incurred by Indemnitee in so cooperating shall be borne by the Company (irrespective of the determination as to Indemnitee's entitlement to indemnification) and the Company hereby indemnifies and agrees to hold Indemnitee harmless therefrom.

(c) In the event the determination of entitlement to indemnification is to be made by Independent Counsel pursuant to Section 7(b) of this Agreement, the Independent Counsel shall be selected as provided in this Section 7(c). If a Change of Control shall not have occurred, the Independent Counsel shall be selected by the Board,

>

and the Company shall give written notice to Indemnatee advising him or her of the identity of the Independent Counsel so selected. If a Change of Control shall have occurred, the Independent Counsel shall be selected by Indemnatee (unless Indemnatee shall request that such selection be made by the Board, in which event the preceding sentence shall apply), and Indemnatee shall give written notice to the Company advising it of the identity of the Independent Counsel so selected. In either event, Indemnatee or the Company, as the case may be, may, within seven (7) days after such written notice of selection shall have been given, deliver to the Company or to Indemnatee, as the case may be, a written objection to such selection. Such objection may be asserted only on the ground that the Independent Counsel so selected does not meet the requirements of "Independent Counsel" as defined in Section 14 of this Agreement, and the objection shall set forth with particularity the factual basis of such assertion. If such written objection is made, the Independent Counsel so selected may not serve as Independent Counsel unless and until a court has determined that such objection is without merit. If, within twenty (20) days after submission by Indemnatee of a written request for indemnification pursuant to Section 7(a) hereof, no Independent Counsel shall have been selected or if selected, shall have been objected to, in accordance with this Section 7(c), either the Company or Indemnatee may petition the Court of Chancery of the State of Delaware or other court of competent jurisdiction for resolution of any objection which shall have been made by the Company or Indemnatee to the other's selection of Independent Counsel and/or for the appointment as Independent Counsel of a person selected by the Court or by such other person as the Court shall designate, and the person with respect to whom an objection is favorably resolved or the person so appointed shall act as Independent Counsel under Section 7(b) hereof. The Company shall pay reasonable fees and expenses of Independent Counsel incurred in connection with its acting in such capacity pursuant to Section 7(b) hereof. The Company shall pay any and all reasonable fees and expenses incident to the procedures of this Section 7(c), regardless of the manner in which such Independent Counsel was selected or appointed. Upon the due commencement of any judicial proceeding or arbitration pursuant to Section 9(a) of this Agreement, Independent Counsel shall be discharged and relieved of any further responsibility in such capacity (subject to the applicable standards of professional conduct then prevailing).

#### 8. Presumptions and Effect of Certain Proceedings.

(a) If a Change of Control shall have occurred, in making a determination with respect to entitlement to indemnification hereunder, the person, persons or entity making such determination shall presume that Indemnatee is entitled to indemnification under this Agreement if Indemnatee has submitted a request for indemnification in accordance with Section 7(a) of this Agreement, and the Company shall have the burden of proof to overcome that presumption in connection with the making by any person, persons or entity of any determination contrary to that presumption.

(b) If the person, persons or entity empowered or selected under Section 7 of this Agreement to determine whether Indemnatee is entitled to indemnification shall not have made such determination within sixty (60) days after receipt by the Company of the

<



>

request therefor, the requisite determination of entitlement to indemnification shall be deemed to have been made and Indemnitee shall be entitled to such indemnification, absent (i) a misstatement by Indemnitee of a material fact, or an omission of a material fact necessary to make Indemnitee's statement not materially misleading, in connection with the request for indemnification, or (ii) a prohibition of such indemnification under applicable law; provided, however, that such 60-day period may be extended for a reasonable time, not to exceed an additional thirty (30) days, if the person, persons or entity making the determination with respect to entitlement to indemnification in good faith requires such additional time for the obtaining or evaluating of documentation and/or information relating thereto; and provided, further, that the foregoing provisions of this Section 8(b) shall not apply (i) if the determination of entitlement to indemnification is to be made by the stockholders pursuant to Section 7(b) of this Agreement and if (A) within fifteen (15) days after receipt by the Company of the request for such determination the Board has resolved to submit such determination to the stockholders for their consideration at an annual meeting thereof to be held within one hundred twenty (120) days after such receipt and such determination is made thereat, or (B) a special meeting of stockholders is called within fifteen (15) days after such receipt for the purpose of making such determination, such meeting is held for such purpose within one hundred five (105) days after having been so called and such determination is made thereat, or (ii) if the determination of entitlement to indemnification is to be made by Independent Counsel pursuant to Section 7(b) of this Agreement.

(c) The termination of any action, suit, arbitration, alternative dispute resolution proceeding, investigation, administrative hearing or other proceeding whether civil, criminal, administrative or investigative or of any claim, issue or matter therein by judgment, order, settlement or conviction, or upon a plea of nolo contendere or its equivalent, shall not (except as otherwise expressly provided in this Agreement) of itself adversely affect the right of Indemnitee to indemnification or create a presumption that Indemnitee did not act in good faith and in a manner which Indemnitee reasonably believed to be in or not opposed to the best interests of the Company or, with respect to any criminal action or proceeding, that Indemnitee had reasonable cause to believe that his or her conduct was unlawful.

#### 9. Remedies of Indemnitee.

(a) In the event that (i) a determination is made pursuant to Section 7 of this Agreement that Indemnitee is not entitled to indemnification under this Agreement, (ii) advancement of Expenses is not timely made pursuant to Section 6 of this Agreement, (iii) the determination of entitlement to indemnification is to be by Independent Counsel pursuant to Section 7(b) of this Agreement and such determination shall not have been made and delivered in a written opinion within ninety (90) days after receipt by the Company of the request for indemnification, (iv) payment of indemnification is not made pursuant to Section 5 of this Agreement within ten (10) days after receipt by the Company of a written request therefor, or (v) payment of indemnification is not made within ten (10) days after a determination has been made that Indemnitee is entitled to indemnification or such determination is deemed to have been made pursuant to Section

<

>

8 of this Agreement, Indemnatee shall be entitled to an adjudication in an appropriate court of the State of Delaware, or in any other court of competent jurisdiction, of Indemnatee's entitlement to such indemnification or advancement of Expenses. Alternatively, Indemnatee, at his or her option, may seek an award in arbitration to be conducted by a single arbitrator pursuant to the rules of the American Arbitration Association. Indemnatee shall commence such proceeding seeking an adjudication or an award in arbitration within one hundred eighty (180) days following the date on which Indemnatee first has the right to commence such proceeding pursuant to this Section 9(a). The Company shall not oppose Indemnatee's right to seek any such adjudication or award in arbitration.

(b) In the event that a determination shall have been made pursuant to Section 7 of this Agreement that Indemnatee is not entitled to indemnification, any judicial proceeding or arbitration commenced pursuant to this Section 9 shall be conducted in all respects as a de novo trial, or arbitration, on the merits and Indemnatee shall not be prejudiced by reason of that adverse determination. If a Change of Control shall have occurred, in any judicial proceeding or arbitration commenced pursuant to this Section 9 the Company shall have the burden of proving that Indemnatee is not entitled to indemnification or advancement of Expenses, as the case may be.

(c) If a determination shall have been made or deemed to have been made pursuant to Section 7 or 8 of this Agreement that Indemnatee is entitled to indemnification, the Company shall be bound by such determination in any judicial proceeding or arbitration commenced pursuant to this Section 9, absent (i) a misstatement by Indemnatee of a material fact, or an omission of a material fact necessary to make Indemnatee's statement not materially misleading, in connection with the request for indemnification, or (ii) a prohibition of such indemnification under applicable law.

(d) The Company shall be precluded from asserting in any judicial proceeding or arbitration commenced pursuant to this Section 9 that the procedures and presumptions of this Agreement are not valid, binding and enforceable and shall stipulate in any such court or before any such arbitrator that the Company is bound by all the provisions of this Agreement.

(e) In the event that Indemnatee, pursuant to this Section 9, seeks a judicial adjudication of or an award in arbitration to enforce Indemnatee's rights under, or to recover damages for breach of, this Agreement, Indemnatee shall be entitled to recover from the Company, and shall be indemnified by the Company against, any and all expenses (of the types described in the definition of Expenses in Section 14 of this Agreement) actually and reasonably incurred by him or her in such judicial adjudication or arbitration, but only if Indemnatee prevails therein. If it shall be determined in said judicial adjudication or arbitration that Indemnatee is entitled to receive part but not all of the indemnification or advancement of expenses sought, the expenses incurred by Indemnatee in connection with such judicial adjudication or arbitration shall be appropriately prorated.

<

>

10. Security. To the extent requested by Indemnitee and approved by the Board, the Company shall at any time and from time to time provide security to Indemnitee for the Company's obligations hereunder through an irrevocable bank line of credit, funded trust or other collateral. Any such security, once provided to Indemnitee, may not be revoked or released without the prior written consent of Indemnitee.

11. Non-Exclusivity; Duration of Agreement; Insurance; Subrogation.

(a) The rights of indemnification and to receive advancement of Expenses as provided by this Agreement are in addition to and shall not be deemed exclusive of any other rights to which Indemnitee may at any time be entitled under applicable law, the Company's certificate of incorporation or by-laws, any other agreement, a vote of stockholders or a resolution of directors, or otherwise. Without limiting the foregoing, the Company shall indemnify Indemnitee to the fullest extent permitted under Delaware law. This Agreement shall continue until and terminate upon the later of (a) ten (10) years after the date that Indemnitee shall have ceased to serve as a director or officer of the Company or director, officer or other fiduciary of any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise which Indemnitee served at the request of the Company; or (b) the final termination of all pending actions, suits, arbitrations, alternative dispute resolution proceedings, investigations, administrative hearings or other proceedings whether civil, criminal, administrative or investigative in respect of which Indemnitee is granted rights of indemnification or advancement of Expenses hereunder and of any proceeding commenced by Indemnitee pursuant to Section 9 of this Agreement relating thereto. This Agreement shall be binding upon the Company and its successors and assigns and shall inure to the benefit of Indemnitee and his or her heirs, executors and administrators.

(b) To the extent that the Company maintains D&O Insurance, Indemnitee shall be covered by such D&O Insurance in accordance with its terms to the maximum extent of the coverage available for any director or officer under such policy or policies.

(c) In the event of any payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all papers required and take all action necessary to secure such rights, including execution of such documents as are necessary to enable the Company to bring suit to enforce such rights.

(d) The Company shall not be liable under this Agreement to make any payment of amounts otherwise indemnifiable hereunder if and to the extent that Indemnitee has otherwise actually received such payment under any insurance policy, contract, agreement or otherwise.

12. Severability; Reformation. If any provision or provisions of this Agreement shall be held to be invalid, illegal or unenforceable for any reason whatsoever: (a) the validity, legality and enforceability of the remaining provisions of this Agreement (including without limitation, each portion of any Section of this

<

>

Agreement containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby; and (b) to the fullest extent possible, the provisions of this Agreement (including, without limitation, each portion of any Section of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable.

13. Exception to Right of Indemnification or Advancement of Expenses. Notwithstanding any other provision of this Agreement, Indemnitee shall not be entitled to indemnification or advancement of Expenses under this Agreement with respect to any action, suit or proceeding, or any claim therein, initiated, brought or made by Indemnitee (i) against the Company, unless a Change in Control shall have occurred, or (ii) against any person other than the Company, unless approved in advance by the Board.

14. Definitions. For purposes of this Agreement:

(a) "Change in Control" means an event or occurrence set forth in any one or more of subsection (i) through (iv) below (including an event or occurrence that constitutes a Change in Control under one of such subsections but is specifically exempted from another such subsection):

(i) the acquisition by an individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) (a "Person") of beneficial ownership of any capital stock of the Company if, after such acquisition, such Person beneficially owns (within the meaning of Rule 13d-3 promulgated under the Exchange Act) 40% or more of either (A) the then-outstanding shares of common stock of the Company (the "Outstanding Company Common Stock") or (B) the combined voting power of the then-outstanding securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); provided, however, that for purposes of this subsection (i), the following acquisitions shall not constitute a Change in Control: (A) any acquisition by the Company, (B) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company, or (C) any acquisition by any corporation pursuant to a transaction which complies with clauses (A) and (B) of subsection (iii) of this Section 14(a); or

(ii) such time as the Continuing Directors (as defined below) do not constitute a majority of the Board (or, if applicable, the Board of Directors of a successor corporation to the Company), where the term "Continuing Director" means at any date a member of the Board (A) who was a member of the Board on August 8, 2001 or (B) who was nominated or elected subsequent to such date by at least a majority of the directors who were Continuing Directors at the time of such nomination or election; provided, however, that there shall be excluded from

>

this clause (B) any individual whose initial assumption of office occurred as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents, by or on behalf of a person other than the Board; or

(iii) the consummation of a merger, consolidation, reorganization, recapitalization or statutory share exchange involving the Company or a sale or other disposition of all or substantially all of the assets of the Company in one or a series of transactions (a "Business Combination"), unless, immediately following such Business Combination, each of the following two conditions is satisfied: (A) all or substantially all of the individuals and entities who were the beneficial owners of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 60% of the then-outstanding shares of common stock and the combined voting power of the then-outstanding securities entitled to vote generally in the election of directors, respectively, of the resulting or acquiring corporation in such Business Combination (which shall include, without limitation, a corporation which as a result of such transaction owns the Company or substantially all of the Company's assets either directly or through one or more subsidiaries) (such resulting or acquiring corporation is referred to herein as the "Acquiring Corporation") in substantially the same proportions as their ownership, immediately prior to such Business Combination, of the Outstanding Company Common Stock and Outstanding Company Voting Securities, respectively; and (B) no Person (excluding the Acquiring Corporation or any employee benefit plan (or related trust) maintained or sponsored by the Company or by the Acquiring Corporation) beneficially owns, directly or indirectly, 40% or more of the then outstanding shares of common stock of the Acquiring Corporation, or of the combined voting power of the then-outstanding securities of such corporation entitled to vote generally in the election of directors; or

(iv) approval by the stockholders of the Company of a complete liquidation or dissolution of the Company; or

(b) "Corporate Status" describes the status of a person who is or was or has agreed to become a director of the Company, or is or was an officer or fiduciary of the Company or a director, officer or fiduciary of any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise which such person is or was serving at the request of the Company.

(c) "Disinterested Director" means a director of the Company who is not and was not a party to the action, suit, arbitration, alternative dispute resolution proceeding, investigation, administrative hearing or any other proceeding whether civil, criminal, administrative or investigative in respect of which indemnification is sought by Indemnatee.

<

>

(d) "Expenses" shall include all reasonable attorneys' fees, retainers, court costs, transcript costs, fees and expenses of experts, including but not limited to fees and expenses of investment bankers and/or consultants which the Company has authorized Indemnitee to hire and attorneys for such experts, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, deliver service fees, a reasonable per diem fee to compensate Indemnitee for his or her professional time and all other disbursements or expenses of the types customarily incurred in connection with prosecuting, defending, preparing to prosecute or defend or investigating an action, suit, arbitration, alternative dispute resolution proceeding, investigation, administrative hearing or any other proceeding whether civil, criminal, administrative or investigative.

(e) "Independent Counsel" means a law firm, with over 100 lawyers, that is experienced in matters of corporation law and neither currently is, nor in the past five years has been, retained to represent: (i) the Company (including any subsidiary thereof) or Indemnitee in any matter material to either such party or (ii) any other party to the action, suit, arbitration, alternative dispute resolution proceeding, investigation, administrative hearing or any other proceeding whether civil, criminal, administrative or investigative giving rise to a claim for indemnification hereunder. Notwithstanding the foregoing, the term "Independent Counsel" shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or Indemnitee in an action to determine Indemnitee's rights under this Agreement.

15. Headings. The headings of the paragraphs of this Agreement are inserted for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction thereof.

16. Modification and Waiver. This Agreement may be amended from time to time to reflect changes in Delaware law or for other reasons. No supplement, modification or amendment of this Agreement shall be binding unless executed in writing by both of the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provision hereof (whether or not similar) nor shall such waiver constitute a continuing waiver.

17. Notice by Indemnitee. Indemnitee agrees promptly to notify the Company in writing upon being served with any summons, citation, subpoena, complaint, indictment, information or other document relating to any matter which may be subject to indemnification or advancement of Expenses covered hereunder; provided, however, that the failure to give any such notice shall not disqualify Indemnitee from indemnification hereunder.

18. Notices. All notices, requests, demands and other communications hereunder shall be in writing and shall be deemed to have been duly given if (i) delivered by hand and receipted for by the party to whom said notice or other communication shall have been directed, or (ii) mailed by certified or registered mail with postage prepaid, on the third business day after the date on which it is so mailed:

<

>

(a) If to Indemnitee, to: The address shown beneath his or her signature on the last page hereof

(b) If to the Company to: Kadant Inc.  
245 Winter Street  
Waltham, MA 02451  
Attn: Corporate Secretary

or to such other address as may have been furnished to Indemnitee by the Company or to the Company by Indemnitee, as the case may be.

19. Governing Law. The parties agree that this Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of Delaware.

20. Entire Agreement. This agreement sets forth the entire agreement of the parties hereto in respect of the subject matter contained herein and supersedes all prior agreements, promises, covenants, arrangements, communications, representations or warranties, whether oral or written, by any officer, employee or representative of any party hereto in respect of the subject matter contained herein; and any prior agreement of the parties hereto in respect of the subject matter contained herein is hereby terminated and cancelled.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the day and year first above written.

Attest: KADANT INC.

By: -----  
Sandra L. Lambert  
Secretary

By: -----  
William A. Rainville  
President and Chief Executive Officer

INDEMNITEE

-----  
Name:  
Address:

## AMENDED AND RESTATED BY-LAWS

OF

KADANT INC.

## TABLE OF CONTENTS

|             | Page  |
|-------------|---|
| ARTICLE I   | STOCKHOLDERS.....1  |
| 1.1         | Place of Meetings.....1   |
| 1.2         | Annual Meeting.....1  |
| 1.3         | Special Meetings.....1  |
| 1.4         | Notice of Meetings.....1  |
| 1.5         | Voting List.....1   |
| 1.6         | Quorum.....2  |
| 1.7         | Adjournments.....2  |
| 1.8         | Voting and Proxies.....2  |
| 1.9         | Action at Meeting.....2   |
| 1.10        | Nomination of Directors.....3   |
| 1.11        | Notice of Business at Annual Meetings.....4   |
| 1.12        | Conduct of Meetings.....5   |
| 1.13        | No Action by Written Consent in Lieu of a Meeting.....6   |
| ARTICLE II  | DIRECTORS.....6   |
| 2.1         | General Powers.....6  |
| 2.2         | Number, Election and Qualification.....6  |
| 2.3         | Classes of Directors.....7  |
| 2.4         | Terms of Office.....7   |
| 2.5         | Allocation of Directors Among Classes in the Event of Increases<br>or Decreases in the Authorized Number of Directors.....7 |
| 2.6         | Quorum.....7  |
| 2.7         | Action at Meeting.....7   |
| 2.8         | Removal.....8   |
| 2.9         | Vacancies.....8   |
| 2.10        | Resignation.....8   |
| 2.11        | Regular Meetings.....8  |
| 2.12        | Special Meetings.....8  |
| 2.13        | Notice of Special Meetings.....8  |
| 2.14        | Meetings by Conference Communications Equipment.....8   |
| 2.15        | Action by Written Consent.....8   |
| 2.16        | Committees.....9  |
| 2.17        | Compensation of Directors.....9   |
| ARTICLE III | OFFICERS.....9  |
| 3.1         | Titles.....9  |
| 3.2         | Election.....9  |
| 3.3         | Qualification.....9   |
| 3.4         | Tenure.....9  |
| 3.5         | Resignation and Removal.....10  |
| 3.6         | Vacancies.....10  |
| 3.7         | Chairman of the Board.....10  |



|            |   |    |
|------------|---|----|
| 3.8        | President; Powers of Chief Executive Officer..... | 10 |
| 3.9        | Vice Presidents.....                              | 10 |
| 3.10       | Secretary and Assistant Secretaries.....          | 11 |
| 3.11       | Treasurer and Assistant Treasurers.....           | 11 |
| 3.12       | Salaries.....                                     | 11 |
| ARTICLE IV | CAPITAL STOCK.....                                | 11 |
| 4.1        | Issuance of Stock.....                            | 11 |
| 4.2        | Certificates of Stock.....                        | 12 |
| 4.3        | Transfers.....                                    | 12 |
| 4.4        | Lost, Stolen or Destroyed Certificates.....       | 12 |
| 4.5        | Record Date.....                                  | 12 |
| ARTICLE V  | GENERAL PROVISIONS.....                           | 13 |
| 5.1        | Fiscal Year.....                                  | 13 |
| 5.2        | Corporate Seal.....                               | 13 |
| 5.3        | Waiver of Notice.....                             | 13 |
| 5.4        | Voting of Securities.....                         | 13 |
| 5.5        | Evidence of Authority.....                        | 13 |
| 5.6        | Certificate of Incorporation.....                 | 13 |
| 5.7        | Transactions with Interested Parties.....         | 14 |
| 5.8        | Severability.....                                 | 14 |
| 5.9        | Pronouns.....                                     | 14 |
| ARTICLE VI | AMENDMENTS.....                                   | 14 |

ARTICLE I  
STOCKHOLDERS

1.1 Place of Meetings. All meetings of stockholders shall be held at such place as may be designated from time to time by the Board of Directors, the Chairman of the Board or the President or, if not so designated, at the principal office of the corporation. The Board of Directors may, in its sole discretion, determine that a meeting shall not be held at any place, but may instead be held solely by means of remote communication in a manner consistent with the Delaware General Corporation Law.

1.2 Annual Meeting. The annual meeting of stockholders for the election of directors and for the transaction of such other business as may properly be brought before the meeting shall be held on a date and at a time designated by the Board of Directors, the Chairman of the Board or the President (which date shall not be a legal holiday in the place where the meeting is to be held). If no annual meeting is held in accordance with the foregoing provisions, the Board of Directors shall cause the meeting to be held as soon thereafter as is convenient. If no annual meeting is held in accordance with the foregoing provisions, a special meeting may be held in lieu of the annual meeting, and any action taken at that special meeting shall have the same effect as if it had been taken at the annual meeting, and in such case all references in these By-laws to the annual meeting of the stockholders shall be deemed to refer to such special meeting.

1.3 Special Meetings. Special meetings of stockholders for any purpose or purposes may be called at any time by the Board of Directors, the Chairman of the Board or the President, but such special meetings may not be called by any other person or persons. Business transacted at any special meeting of stockholders shall be limited to matters relating to the purpose or purposes stated in the notice of meeting.

1.4 Notice of Meetings. Except as otherwise provided by law, written notice of each meeting of stockholders, whether annual or special, shall be given not less than 10 nor more than 60 days before the date of the meeting to each stockholder entitled to vote at such meeting. Without limiting the manner by which notice may otherwise be given to stockholders, any notice shall be effective if given by a form of electronic transmission consented to (in a manner consistent with the Delaware General Corporation Law) by the stockholder to whom the notice is given. The notices of all meetings shall state the place, if any, date and time of the meeting and the means of remote communications, if any, by which stockholders and proxyholders may be deemed to be present in person and vote at such meeting. The notice of a special meeting shall state, in addition, the purpose or purposes for which the meeting is called. If notice is given by mail, such notice shall be deemed given when deposited in the United States mail, postage prepaid, directed to the stockholder at such stockholder's address as it appears on the records of the corporation. If notice is given by electronic transmission, such notice shall be deemed given at the time specified in Section 232 of the Delaware General Corporation Law.

1.5 Voting List. The Secretary shall prepare, at least 10 days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any

<

>

stockholder, for any purpose germane to the meeting, for a period of at least 10 days prior to the meeting: (i) on a reasonably accessible electric network, provided that the information required to gain access to such list is provided with the notice of the meeting, or (ii) during ordinary business hours, at the principal place of business of the corporation. If the meeting is to be held at a place, then the list shall be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present. If the meeting is to be held solely by means of remote communication, then the list shall also be open to the examination of any stockholder during the whole time of the meeting on a reasonably accessible electronic network, and the information required to access such list shall be provided with the notice of the meeting.

1.6 Quorum. Except as otherwise provided by law, the Certificate of Incorporation or these By-laws, the holders of a majority of the shares of the capital stock of the corporation issued and outstanding and entitled to vote at the meeting, present in person, present by means of remote communications in a manner, if any, authorized by the Board of Directors in its sole discretion or represented by proxy, shall constitute a quorum for the transaction of business. A quorum, once established at a meeting, shall not be broken by the withdrawal of enough votes to leave less than a quorum.

1.7 Adjournments. Any meeting of stockholders may be adjourned from time to time to any other time and to any other place at which a meeting of stockholders may be held under these By-laws by the stockholders present or represented at the meeting and entitled to vote, although less than a quorum, or, if no stockholder is present, by any officer entitled to preside at or to act as secretary of such meeting. It shall not be necessary to notify any stockholder of any adjournment of less than 30 days if the time and place, if any, of the adjourned meeting, and the means of remote communication, if any, by which stockholders and proxyholders may be deemed to be present in person and vote at such adjourned meeting, are announced at the meeting at which adjournment is taken, unless after the adjournment a new record date is fixed for the adjourned meeting. At the adjourned meeting, the corporation may transact any business which might have been transacted at the original meeting.

1.8 Voting and Proxies. Each stockholder shall have one vote for each share of stock entitled to vote held of record by such stockholder and a proportionate vote for each fractional share so held, unless otherwise provided by law or the Certificate of Incorporation. Each stockholder of record entitled to vote at a meeting of stockholders may vote in person (including by means of remote communications, if any, by which stockholders may be deemed to be present in person and vote at such meeting) or may authorize another person or persons to vote for such stockholder by a proxy executed or transmitted in a manner permitted by the Delaware General Corporation Law by the stockholder or such stockholder's authorized agent and delivered (including by electronic transmission) to the Secretary of the corporation. No such proxy shall be voted upon after three years from the date of its execution, unless the proxy expressly provides for a longer period.

1.9 Action at Meeting. When a quorum is present at any meeting, any matter other than the election of directors to be voted upon by the stockholders at such meeting shall be decided by the vote of the holders of shares of stock having a majority of the votes cast by the holders of all of the shares of stock present or represented and voting on such matter (or if there

<

>

are two or more classes of stock entitled to vote as separate classes, then in the case of each such class, the holders of a majority of the stock of that class present or represented and voting on such matter), except when a different vote is required by law, the Certificate of Incorporation or these By-laws. When a quorum is present at any meeting, any election of directors by stockholders shall be determined by a plurality of the votes cast by the stockholders entitled to vote on the election.

#### 1.10 Nomination of Directors.

(a) Except for (i) any directors entitled to be elected by the holders of preferred stock or any other securities of the corporation (other than common stock) and (ii) any directors elected in accordance with Section 2.9 hereof by the Board of Directors to fill a vacancy, only persons who are nominated in accordance with the procedures in this Section 1.10 shall be eligible for election as directors. Nomination for election to the Board of Directors of the corporation at a meeting of stockholders may be made (i) by or at the direction of the Board of Directors or (ii) by any stockholder of the corporation who (x) complies with the notice procedures set forth in Section 1.10(b) and (y) is a stockholder of record on the date of the giving of such notice and on the record date for the determination of stockholders entitled to vote at such meeting.

(b) To be timely, a stockholder's notice must be received by the Secretary at the principal executive offices of the corporation as follows: (x) in the case of an election of directors at an annual meeting of stockholders, not less than 60 days nor more than 90 days prior to the first anniversary of the preceding year's annual meeting; provided, however, that (i) in the case of the annual meeting of stockholders of the corporation to be held in 2002 or (ii) in the event that the date of the annual meeting in any other year is advanced by more than 20 days, or delayed by more than 60 days, from the first anniversary of the preceding year's annual meeting, a stockholder's notice must be so received not earlier than the ninetieth day prior to such annual meeting and not later than the close of business on the later of (A) the sixtieth day prior to such annual meeting and (B) the tenth day following the day on which notice of the date of such annual meeting was mailed or public disclosure of the date of such annual meeting was made, whichever first occurs; or (y) in the case of an election of directors at a special meeting of stockholders, not earlier than the ninetieth day prior to such special meeting and not later than the close of business on the later of (i) the sixtieth day prior to such special meeting and (ii) the tenth day following the day on which notice of the date of such special meeting was mailed or public disclosure of the date of such special meeting was made, whichever first occurs.

The stockholder's notice to the Secretary shall set forth: (a) as to each proposed nominee (i) such person's name, age, business address and, if known, residence address, (ii) such person's principal occupation or employment, (iii) the class and number of shares of stock of the corporation which are beneficially owned by such person, and (iv) any other information concerning such person that must be disclosed as to nominees in proxy solicitations pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended; (b) as to the stockholder giving the notice (i) such stockholder's name and address, as they appear on the corporation's books, (ii) the class and number of shares of stock of the corporation which are owned, beneficially and of record, by such stockholder, (iii) a description of all arrangements or understandings between such stockholder and each proposed nominee and any other person or

<

>

persons (including their names) pursuant to which the nomination(s) are to be made by such stockholder and (iv) a representation that such stockholder intends to appear in person or by proxy at the meeting to nominate the person(s) named in its notice; and (c) as to the beneficial owner, if any, on whose behalf the nomination is being made (i) such beneficial owner's name and address, (ii) the class and number of shares of stock of the corporation which are beneficially owned by such beneficial owner, and (iii) a description of all arrangements or understandings between such beneficial owner and each proposed nominee and any other person or persons (including their names) pursuant to which the nomination(s) are to be made. In addition, to be effective, the stockholder's notice must be accompanied by the written consent of the proposed nominee to serve as a director if elected. The corporation may require any proposed nominee to furnish such other information as may reasonably be required to determine the eligibility of such proposed nominee to serve as a director of the corporation.

(c) The chairman of any meeting shall, if the facts warrant, determine that a nomination was not made in accordance with the provisions of this Section 1.10, and if he should so determine, he shall so declare to the meeting and the defective nomination shall be disregarded.

(d) Except as otherwise required by law, nothing in this Section 1.10 shall obligate the corporation or the Board of Directors to include in any proxy statement or other stockholder communication distributed on behalf of the corporation or the Board of Directors information with respect to any nominee for director submitted by a stockholder.

#### 1.11 Notice of Business at Annual Meetings.

(a) At any annual meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be (i) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, (ii) otherwise properly brought before the meeting by or at the direction of the Board of Directors, or (iii) properly brought before the meeting by a stockholder. For business to be properly brought before an annual meeting by a stockholder, (i) if such business relates to the election of directors of the corporation, the procedures in Section 1.10 must be complied with and (ii) if such business relates to any other matter, the stockholder must (x) have given timely notice thereof in writing to the Secretary in accordance with the procedures set forth in Section 1.11(b) and (y) be a stockholder of record on the date of the giving of such notice and on the record date for the determination of stockholders entitled to vote at such annual meeting.

(b) To be timely, a stockholder's notice must be received by the Secretary at the principal executive offices of the corporation not less than 60 days nor more than 90 days prior to the first anniversary of the preceding year's annual meeting; provided, however, that (i) in the case of the annual meeting of stockholders of the corporation to be held in 2002 or (ii) in the event that the date of the annual meeting in any other year is advanced by more than 20 days, or delayed by more than 60 days, from the first anniversary of the preceding year's annual meeting, a stockholder's notice must be so received not earlier than the ninetieth day prior to such annual meeting and not later than the close of business on the later of (A) the sixtieth day prior to such annual meeting and (B) the tenth day following the day on which notice of the date of such annual meeting was mailed or public disclosure of the date of such annual meeting was made, whichever first occurs.

>

The stockholder's notice to the Secretary shall set forth as to each matter the stockholder proposes to bring before the annual meeting (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and address, as they appear on the corporation's books, of the stockholder proposing such business, and the name and address of the beneficial owner, if any, on whose behalf the proposal is made, (iii) the class and number of shares of stock of the corporation which are owned, of record and beneficially, by the stockholder and beneficial owner, if any, (iv) a description of all arrangements or understandings between such stockholder or such beneficial owner, if any, and any other person or persons (including their names) in connection with the proposal of such business by such stockholder and any material interest of the stockholder or such beneficial owner, if any, in such business, and (v) a representation that such stockholder intends to appear in person or by proxy at the annual meeting to bring such business before the meeting. Notwithstanding anything in these By-laws to the contrary, no business shall be conducted at any annual meeting of stockholders except in accordance with the procedures set forth in this Section 1.11; provided that any stockholder proposal which complies with Rule 14a-8 of the proxy rules (or any successor provision) promulgated under the Securities Exchange Act of 1934, as amended, and is to be included in the corporation's proxy statement for an annual meeting of stockholders shall be deemed to comply with the requirements of this Section 1.11.

(c) The chairman of any meeting shall, if the facts warrant, determine that business was not properly brought before the meeting in accordance with the provisions of this Section 1.11, and if he should so determine, he shall so declare to the meeting and such business shall not be brought before the meeting.

#### 1.12 Conduct of Meetings.

(a) Chairman of Meeting. Meetings of stockholders shall be presided over by the Chairman of the Board, if any, or in the Chairman's absence by the Vice Chairman of the Board, if any, or in the Vice Chairman's absence by the President, or in the President's absence by a Vice President, or in the absence of all of the foregoing persons by a chairman designated by the Board of Directors, or in the absence of such designation by a chairman chosen by vote of the stockholders at the meeting. The Secretary shall act as secretary of the meeting, but in the Secretary's absence the chairman of the meeting may appoint any person to act as secretary of the meeting.

(b) Rules, Regulations and Procedures. The Board of Directors of the corporation may adopt by resolution such rules, regulations and procedures for the conduct of any meeting of stockholders of the corporation as it shall deem appropriate including, without limitation, such guidelines and procedures as it may deem appropriate regarding the participation by means of remote communication of stockholders and proxyholders not physically present at a meeting. Except to the extent inconsistent with such rules, regulations and procedures as adopted by the Board of Directors, the chairman of any meeting of stockholders shall have the right and authority to prescribe such rules, regulations and procedures and to do all such acts as, in the judgment of such chairman, are appropriate for the proper conduct of the meeting. Such rules, regulations or procedures, whether adopted by the Board of Directors or prescribed by the chairman of the meeting, may include, without limitation, the following: (i) the establishment of an agenda or order of business for the meeting; (ii) rules and procedures for maintaining order at

<

>

the meeting and the safety of those present; (iii) limitations on attendance at or participation in the meeting to stockholders of record of the corporation, their duly authorized and constituted proxies or such other persons as shall be determined; (iv) restrictions on entry to the meeting after the time fixed for the commencement thereof; and (v) limitations on the time allotted to questions or comments by participants. Unless and to the extent determined by the Board of Directors or the chairman of the meeting, meetings of stockholders shall not be required to be held in accordance with the rules of parliamentary procedure.

(c) Closing of Polls. The chairman of the meeting shall announce at the meeting when the polls for each matter to be voted upon at the meeting will be opened and closed. If no announcement is made, the polls shall be deemed to have opened when the meeting is convened and closed upon the final adjournment of the meeting. After the polls close, no ballots, proxies or votes or any revocations or changes thereto may be accepted.

(d) Inspectors of Election. In advance of any meeting of stockholders, the Board of Directors, the Chairman of the Board or the President shall appoint one or more inspectors or election to act at the meeting and make a written report thereof. One or more other persons may be designated as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate is present, ready and willing to act at a meeting of stockholders, the chairman of the meeting shall appoint one or more inspectors to act at the meeting. Unless otherwise required by law, inspectors may be officers, employees or agents of the corporation. Each inspector, before entering upon the discharge of such inspector's duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of such inspector's ability. The inspector shall have the duties prescribed by law and shall take charge of the polls and, when the vote is completed, shall make a certificate of the result of the vote taken and of such other facts as may be required by law.

1.13 No Action by Written Consent in Lieu of a Meeting. Stockholders of the corporation may not take any action by written consent in lieu of a meeting.

## ARTICLE II

### DIRECTORS

2.1 General Powers. The business and affairs of the corporation shall be managed by or under the direction of a Board of Directors, who may exercise all of the powers of the corporation except as otherwise provided by law, the Certificate of Incorporation or these By-laws. In the event of a vacancy in the Board of Directors, the remaining directors, except as otherwise provided by law, may exercise the powers of the full Board until the vacancy is filled.

2.2 Number, Election and Qualification. The number of directors which shall constitute the whole Board of Directors shall be determined from time to time by resolution of the Board of Directors, but in no event shall be less than three. The directors shall be elected at the annual meeting of stockholders by such stockholders as have the right to vote on such election. Directors need not be stockholders of the corporation.

<

>

2.3 Classes of Directors. The Board of Directors shall be and is divided into three classes: Class I, Class II and Class III. No one class shall have more than one director more than any other class. If a fraction is contained in the quotient arrived at by dividing the authorized number of directors by three, then, if such fraction is one-third, the extra director shall be a member of Class I, and if such fraction is two-thirds, one of the extra directors shall be a member of Class I and one of the extra directors shall be a member of Class II, unless otherwise provided by resolution of the Board of Directors.

2.4 Terms of Office. Each director shall serve for a term ending on the date of the third annual meeting following the annual meeting at which such director was elected; provided, that each initial director in Class I shall serve for a term expiring at the corporation's annual meeting of stockholders held in 2002; each initial director in Class II shall serve for a term expiring at the corporation's annual meeting of stockholders held in 2003; and each initial director in Class III shall serve for a term expiring at the corporation's annual meeting of stockholders held in 2004; provided further, that the term of each director shall continue until the election and qualification of such director's successor and be subject to such director's earlier death, resignation or removal.

2.5 Allocation of Directors Among Classes in the Event of Increases or Decreases in the Authorized Number of Directors. In the event of any increase or decrease in the authorized number of directors, (i) each director then serving as such shall nevertheless continue as a director of the class of which such director is a member until the expiration of such director's current term, subject to such director's earlier death, resignation or removal and (ii) the newly created or eliminated directorships resulting from such increase or decrease shall be apportioned by the Board of Directors among the three classes of directors in accordance with the provisions of Section 2.3. To the extent possible, consistent with the provisions of Section 2.3, any newly created directorships shall be added to those classes whose terms of office are to expire at the latest dates following such allocation, and any newly eliminated directorships shall be subtracted from those classes whose terms of offices are to expire at the earliest dates following such allocation, unless otherwise provided from time to time by resolution of the Board of Directors.

2.6 Quorum. A majority of the directors at any time in office shall constitute a quorum for the transaction of business. In the event one or more of the directors shall be disqualified to vote at any meeting, then the required quorum shall be reduced by one for each director so disqualified, provided that in no case shall less than one-third of the number of directors fixed pursuant to Section 2.2 constitute a quorum. If at any meeting of the Board of Directors there shall be less than such a quorum, a majority of the directors present may adjourn the meeting from time to time without further notice other than announcement at the meeting, until a quorum shall be present.

2.7 Action at Meeting. Every act or decision done or made by a majority of the directors present at a meeting duly held at which a quorum is present shall be regarded as the act of the Board of Directors unless a greater number is required by law, by the Certificate of Incorporation or by these By-laws.



>

2.8 Removal. Directors of the corporation may be removed only for cause by the affirmative vote of the holders of at least seventy-five percent (75%) of the votes which all the stockholders would be entitled to cast in any annual election of directors.

2.9 Vacancies. Any vacancy in the Board of Directors, however occurring, including a vacancy resulting from an enlargement of the Board, shall be filled only by vote of a majority of the directors then in office, although less than a quorum, or by a sole remaining director. A director elected to fill a vacancy shall be elected to hold office until the next election of the class for which such director shall have been chosen, subject to the election and qualification of such director's successor and to such director's earlier death, resignation or removal.

2.10 Resignation. Any director may resign by delivering a resignation in writing or by electronic transmission to the corporation at its principal office or to the Chairman of the Board, the President or the Secretary. Such resignation shall be effective upon receipt unless it is specified to be effective at some later time or upon the happening of some later event.

2.11 Regular Meetings. Regular meetings of the Board of Directors may be held without notice at such time and place as shall be determined from time to time by the Board of Directors; provided that any director who is absent when such a determination is made shall be given notice of the determination. A regular meeting of the Board of Directors may be held without notice immediately after and at the same place as the annual meeting of stockholders.

2.12 Special Meetings. Special meetings of the Board of Directors may be held at any time and place designated in a call by the Chairman of the Board, the President, two or more directors, or by one director in the event that there is only a single director in office.

2.13 Notice of Special Meetings. Notice of any special meeting of directors shall be given to each director by the Secretary or by the officer or one of the directors calling the meeting. Notice shall be duly given to each director (i) by giving notice to such director in person or by telephone at least 24 hours in advance of the meeting, (ii) by sending a telegram, telecopy or electronic mail, or delivering written notice by hand, to such director's last known business, home or electronic mail address at least 48 hours in advance of the meeting, or (iii) by sending written notice, via first-class mail or reputable overnight courier, to such director's last known business or home address at least 72 hours in advance of the meeting. A notice or waiver of notice of a meeting of the Board of Directors need not specify the purposes of the meeting.

2.14 Meetings by Conference Communications Equipment. Directors may participate in meetings of the Board of Directors or any committee thereof by means of conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other, and participation by such means shall constitute presence in person at such meeting.

2.15 Action by Consent. Any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if all members of the Board or committee, as the case may be, consent to the action in writing or by electronic transmission, and the written consents and electronic transmissions are filed with the minutes of proceedings of the Board or committee.

<

>

2.16 Committees. The Board of Directors may designate one or more committees, each committee to consist of one or more of the directors of the corporation. The Board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee, the member or members of the committee present at any meeting and not disqualified from voting, whether or not such member or members constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided in the resolution of the Board of Directors and subject to the provisions of law, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the corporation and may authorize the seal of the corporation to be affixed to all papers which may require it. Each such committee shall keep minutes and make such reports as the Board of Directors may from time to time request. Except as the Board of Directors may otherwise determine, any committee may make rules for the conduct of its business, but unless otherwise provided by the directors or in such rules, its business shall be conducted as nearly as possible in the same manner as is provided in these By-laws for the Board of Directors.

2.17 Compensation of Directors. Directors may be paid such compensation for their services and such reimbursement for expenses of attendance at meetings as the Board of Directors may from time to time determine. No such payment shall preclude any director from serving the corporation or any of its parent or subsidiary corporations in any other capacity and receiving compensation for such service.

### ARTICLE III

#### OFFICERS

3.1 Titles. The officers of the corporation shall consist of a President, a Secretary, a Treasurer and such other officers with such other titles as the Board of Directors may determine, including a Chairman of the Board, a Vice Chairman of the Board, and one or more Vice Presidents, Assistant Treasurers, and Assistant Secretaries. The Board of Directors may appoint such other officers as it may deem appropriate.

3.2 Election. The President, Treasurer and Secretary shall be elected annually by the Board of Directors at its first meeting following the annual meeting of stockholders. Other officers may be appointed by the Board of Directors at such meeting or at any other meeting.

3.3 Qualification. No officer need be a stockholder. Any two or more offices may be held by the same person.

3.4 Tenure. Except as otherwise provided by law, by the Certificate of Incorporation or by these By-laws, each officer shall hold office until such officer's successor is elected and qualified, unless a different term is specified in the resolution electing or appointing such officer, or until such officer's earlier death, resignation or removal.

<

>

3.5 Resignation and Removal. Any officer may resign by delivering a written resignation to the corporation at its principal office or to the Chief Executive Officer or the Secretary. Such resignation shall be effective upon receipt unless it is specified to be effective at some later time or upon the happening of some later event.

Any officer may be removed at any time, with or without cause, by vote of a majority of the entire number of directors then in office.

Except as the Board of Directors may otherwise determine, no officer who resigns or is removed shall have any right to any compensation as an officer for any period following such officer's resignation or removal, or any right to damages on account of such removal, whether such officer's compensation be by the month or by the year or otherwise, unless such compensation is expressly provided in a duly authorized written agreement with the corporation.

3.6 Vacancies. The Board of Directors may fill any vacancy occurring in any office for any reason and may, in its discretion, leave unfilled for such period as it may determine any offices other than those of President, Treasurer and Secretary. Each such successor shall hold office for the unexpired term of such officer's predecessor and until a successor is elected and qualified, or until such officer's earlier death, resignation or removal.

3.7 Chairman of the Board. The Board of Directors may appoint from its members a Chairman of the Board. If the Board of Directors appoints a Chairman of the Board, such Chairman shall perform such duties and possess such powers as are assigned by the Board of Directors and, if the Chairman of the Board is also designated as the corporation's Chief Executive Officer, shall have the powers and duties of the Chief Executive Officer prescribed in Section 3.8 of these By-laws. Unless otherwise provided by the Board of Directors, the Chairman of the Board shall preside at all meetings of the Board of Directors and stockholders.

3.8 President; Powers of Chief Executive Officer. Unless the Board of Directors has designated the Chairman of the Board as the corporation's Chief Executive Officer, the President shall be the Chief Executive Officer of the corporation. The Chief Executive Officer shall have general charge and supervision of the business of the Corporation subject to the direction of the Board of Directors. The President shall perform such other duties and shall have such other powers as the Board of Directors and the Chief Executive Officer (if the Chairman of the Board is serving in such position) may from time to time prescribe.

3.9 Vice Presidents. Any Vice President shall perform such duties and possess such powers as the Board of Directors or the Chief Executive Officer may from time to time prescribe. In the event of the absence, inability or refusal to act of the Chief Executive Officer, the President (if the President is not the Chief Executive Officer), and then the Vice President (or if there shall be more than one, the Vice Presidents in the order determined by the Board of Directors), shall perform the duties of the Chief Executive Officer and when so performing shall have all the powers of and be subject to all the restrictions upon the Chief Executive Officer. The Board of Directors may assign to any Vice President the title of Executive Vice President, Senior Vice President or any other title selected by the Board of Directors.

<

>

3.10 Secretary and Assistant Secretaries. The Secretary shall perform such duties and shall have such powers as the Board of Directors or the Chief Executive Officer may from time to time prescribe. In addition, the Secretary shall perform such duties and have such powers as are incident to the office of the secretary, including without limitation the duty and power to give notices of all meetings of stockholders and special meetings of the Board of Directors, to attend all meetings of stockholders and the Board of Directors and keep a record of the proceedings, to maintain a stock ledger and prepare lists of stockholders and their addresses as required, to be custodian of corporate records and the corporate seal and to affix and attest to the same on documents.

Any Assistant Secretary shall perform such duties and possess such powers as the Board of Directors, the Chief Executive Officer or the Secretary may from time to time prescribe. In the event of the absence, inability or refusal to act of the Secretary, the Assistant Secretary (or if there shall be more than one, the Assistant Secretaries in the order determined by the Board of Directors) shall perform the duties and exercise the powers of the Secretary.

In the absence of the Secretary or any Assistant Secretary at any meeting of stockholders or directors, the chairman of the meeting shall designate a temporary secretary to keep a record of the meeting.

3.11 Treasurer and Assistant Treasurers. The Treasurer shall perform such duties and shall have such powers as may from time to time be assigned by the Board of Directors or the Chief Executive Officer. In addition, the Treasurer shall perform such duties and have such powers as are incident to the office of treasurer, including without limitation the duty and power to keep and be responsible for all funds and securities of the corporation, to deposit funds of the corporation in depositories selected in accordance with these By-laws, to disburse such funds as ordered by the Board of Directors, to make proper accounts of such funds, and to render as required by the Board of Directors statements of all such transactions and of the financial condition of the corporation.

The Assistant Treasurers shall perform such duties and possess such powers as the Board of Directors, the Chief Executive Officer or the Treasurer may from time to time prescribe. In the event of the absence, inability or refusal to act of the Treasurer, the Assistant Treasurer (or if there shall be more than one, the Assistant Treasurers in the order determined by the Board of Directors) shall perform the duties and exercise the powers of the Treasurer.

3.12 Salaries. Officers of the corporation shall be entitled to such salaries, compensation or reimbursement as shall be fixed or allowed from time to time by the Board of Directors.

#### ARTICLE IV

##### CAPITAL STOCK

4.1 Issuance of Stock. Unless otherwise voted by the stockholders and subject to the provisions of the Certificate of Incorporation, the whole or any part of any unissued balance of the authorized capital stock of the corporation or the whole or any part of any unissued balance

<

>

of the authorized capital stock of the corporation held in its treasury may be issued, sold, transferred or otherwise disposed of by vote of the Board of Directors in such manner, for such consideration and on such terms as the Board of Directors may determine.

4.2 Certificates of Stock. Every holder of stock of the corporation shall be entitled to have a certificate, in such form as may be prescribed by law and by the Board of Directors, certifying the number and class of shares owned by such holder in the corporation. Each such certificate shall be signed by, or in the name of the corporation by, the Chairman or Vice Chairman, if any, of the Board of Directors, or the President or a Vice President, and the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary of the corporation. Any or all of the signatures on the certificate may be a facsimile.

Each certificate for shares of stock which are subject to any restriction on transfer pursuant to the Certificate of Incorporation, these By-laws, applicable securities laws or any agreement among any number of stockholders or among such holders and the corporation shall have conspicuously noted on the face or back of the certificate either the full text of the restriction or a statement of the existence of such restriction.

There shall be set forth on the face or back of each certificate representing shares of such class or series of stock of the corporation a statement that the corporation will furnish without charge to each stockholder who so requests a copy of the full text of the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

4.3 Transfers. Except as otherwise established by rules and regulations adopted by the Board of Directors, and subject to applicable law, shares of stock may be transferred on the books of the corporation by the surrender to the corporation or its transfer agent of the certificate representing such shares properly endorsed or accompanied by a written assignment or power of attorney properly executed, and with such proof of authority or the authenticity of signature as the corporation or its transfer agent may reasonably require. Except as may be otherwise required by law, by the Certificate of Incorporation or by these By-laws, the corporation shall be entitled to treat the record holder of stock as shown on its books as the owner of such stock for all purposes, including the payment of dividends and the right to vote with respect to such stock, regardless of any transfer, pledge or other disposition of such stock until the shares have been transferred on the books of the corporation in accordance with the requirements of these By-laws.

4.4 Lost, Stolen or Destroyed Certificates. The corporation may issue a new certificate of stock in place of any previously issued certificate alleged to have been lost, stolen, or destroyed, upon such terms and conditions as the Board of Directors may prescribe, including the presentation of reasonable evidence of such loss, theft or destruction and the giving of such indemnity as the Board of Directors may require for the protection of the corporation or any transfer agent or registrar.

4.5 Record Date. The Board of Directors may fix in advance a date as a record date for the determination of the stockholders entitled to notice of or to vote at any meeting of stockholders, or entitled to receive payment of any dividend or other distribution or allotment of

<

>

any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action. Such record date shall not be more than 60 nor less than 10 days before the date of such meeting, nor more than 60 days prior to any other action to which such record date relates.

If no record date is fixed, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day before the day on which notice is given, or, if notice is waived, at the close of business on the day before the day on which the meeting is held. If no record date is fixed, the record date for determining stockholders for any other purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating to such purpose.

A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

## ARTICLE V

### GENERAL PROVISIONS

5.1 Fiscal Year. Except as from time to time otherwise designated by the Board of Directors, the fiscal year of the corporation shall end on the Saturday closest to December 31.

5.2 Corporate Seal. The corporate seal shall be in such form as shall be approved by the Board of Directors.

5.3 Waiver of Notice. Whenever notice is required to be given by law, by the Certificate of Incorporation or by these By-laws, a written waiver, signed by the person entitled to notice or a waiver by electronic transmission by the person entitled to notice, whether before, at or after the time stated in such waiver, or the attendance of such person at such meeting shall be deemed equivalent to such notice.

5.4 Voting of Securities. Except as the Board of Directors may otherwise designate, the President or the Treasurer may waive notice of, and act as, or appoint any person or persons to act as, proxy or attorney-in-fact for this corporation (with or without power of substitution) at any meeting of stockholders or shareholders of any other corporation or organization, the securities of which may be held by this corporation.

5.5 Evidence of Authority. A certificate by the Secretary, or an Assistant Secretary, or a temporary Secretary, as to any action taken by the stockholders, directors, a committee or any officer or representative of the corporation shall as to all persons who rely on the certificate in good faith be conclusive evidence of such action.

5.6 Certificate of Incorporation. All references in these By-laws to the Certificate of Incorporation shall be deemed to refer to the Certificate of Incorporation of the corporation, as amended and in effect from time to time.

<

>

5.7 Transactions with Interested Parties. No contract or transaction between the corporation and one or more of the directors or officers, or between the corporation and any other corporation, partnership, association, or other organization in which one or more of the directors or officers are directors or officers, or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the Board of Directors or a committee of the Board of Directors at which the contract or transaction is authorized or solely because any such director's or officer's votes are counted for such purpose, if:

(a) The material facts as to the director's or officer's relationship or interest and as to the contract or transaction are disclosed or are known to the Board of Directors or the committee, and the Board or committee in good faith authorizes the contract or transaction by the affirmative votes of a majority of the disinterested directors, even though the disinterested directors be less than a quorum;

(b) The material facts as to the director's or officer's relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders; or

(c) The contract or transaction is fair as to the corporation as of the time it is authorized, approved or ratified, by the Board of Directors, a committee of the Board of Directors, or the stockholders.

Common or interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or of a committee which authorizes the contract or transaction.

5.8 Severability. Any determination that any provision of these By-laws is for any reason inapplicable, illegal or ineffective shall not affect or invalidate any other provision of these By-laws.

5.9 Pronouns. All pronouns used in these By-laws shall be deemed to refer to the masculine, feminine or neuter, singular or plural, as the identity of the person or persons may require.

## ARTICLE VI

### AMENDMENTS

These By-laws may be altered, amended or repealed, in whole or in part, or new By-laws may be adopted by the Board of Directors or by the stockholders as provided in the Certificate of Incorporation.

RESTATED  
CERTIFICATE OF INCORPORATION  
OF  
KADANT INC.

(Originally incorporated under the name Thermo Web Systems Inc. on  
November 12, 1991)

First. The name of the Corporation is:

Kadant Inc.

Second. The address of the Corporation's registered office in the State of Delaware is Corporation Trust Center, 1209 Orange Street, in the City of Wilmington, County of New Castle. The name of its registered agent at such address is The Corporation Trust Company.

Third. The nature of the business or purposes to be conducted or promoted by the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

Fourth. The total number of shares of all classes of stock which the Corporation shall have authority to issue is 155,000,000 shares, consisting of (i) 150,000,000 shares of Common Stock, \$.01 par value per share ("Common Stock"), and (ii) 5,000,000 shares of Preferred Stock, \$.01 par value per share ("Preferred Stock").

The following is a statement of the designations and the powers, privileges and rights, and the qualifications, limitations or restrictions thereof in respect of each class of capital stock of the Corporation.

A. COMMON STOCK

1. General. The voting, dividend and liquidation rights of the holders of the Common Stock are subject to and qualified by the rights of the holders of the Preferred Stock of any series as may be designated by the Board of Directors upon any issuance of the Preferred Stock of any series.

2. Voting. The holders of the Common Stock shall have voting rights at all meetings of stockholders, each such holder being entitled to one vote for each share thereof held by such holder. There shall be no cumulative voting.

The number of authorized shares of Common Stock may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of a majority of the stock of the Corporation entitled to vote, irrespective of the provisions of Section 242(b)(2) of the General Corporation Law of the State of Delaware.

3. Dividends. Dividends may be declared and paid on the Common Stock from funds lawfully available therefor as and when determined by the Board of Directors and subject to any preferential dividend rights of any then outstanding Preferred Stock.

4. Liquidation. Upon the dissolution or liquidation of the Corporation, whether voluntary or involuntary, holders of Common Stock will be entitled to receive all assets of the Corporation available for distribution to its stockholders, subject to any preferential rights of any then outstanding Preferred Stock.

B. PREFERRED STOCK

Preferred Stock may be issued from time to time in one or more series, each of such series to have such terms as stated or expressed herein and in the resolution or resolutions providing for the issue of such series adopted by the Board of Directors of the Corporation as hereinafter provided. Any shares of Preferred Stock which may be redeemed, purchased or acquired by the Corporation may be reissued except as otherwise provided by law. Different series of Preferred Stock shall not be construed to constitute different classes of shares for the purposes of voting by classes unless expressly provided.

Authority is hereby expressly granted to the Board of Directors from time to time to issue the Preferred Stock in one or more series, and in connection with the creation of any such series, by resolution or resolutions



providing for the issuance of the shares thereof, to determine and fix the number of shares of such series and such voting powers, full or limited, or no voting powers, and such designations, preferences and relative participating, optional or other special rights, and qualifications, limitations or restrictions thereof, including without limitation thereof, dividend rights, conversion rights, redemption privileges and liquidation preferences, as shall be stated and expressed in such resolution or resolutions, all to the full extent now or hereafter permitted by the General Corporation Law of the State of Delaware. Without limiting the generality of the foregoing, the resolution or resolutions providing for issuance of any series of Preferred Stock may provide that such series shall be superior or rank equally or be junior to the Preferred Stock of any other series to the extent permitted by law. Except as otherwise provided in this Certificate of Incorporation, no vote of the holders of the Preferred Stock or Common Stock shall be a prerequisite to the designation or issuance of any shares of any series of the Preferred Stock authorized by and complying with the conditions of this Certificate of Incorporation, the right to have such vote being expressly waived by all present and future holders of the capital stock of the Corporation.

C. Series A Junior Participating Preferred Stock

1. Designation and Amount. The shares of such series shall be designated as "Series A Junior Participating Preferred Stock" (the "Series A Preferred Stock") and the number of shares constituting the Series A Preferred Stock shall be Fifteen Thousand (15,000). Such number of shares may be increased or decreased by resolution of the Board prior to issuance; provided, that no decrease shall reduce the number of shares of Series A Preferred Stock to a number less than the number of shares then outstanding plus the number of shares reserved for issuance upon the exercise of outstanding options, rights or warrants or upon the conversion of any outstanding securities issued by the Corporation convertible into Series A Preferred Stock.

<

>

## 2. Dividends and Distributions.

(A) Subject to the rights of the holders of any shares of any series of Preferred Stock (or any similar stock) ranking prior and superior to the Series A Preferred Stock with respect to dividends, the holders of shares of Series A Preferred Stock, in preference to the holders of Common Stock and of any other junior stock, shall be entitled to receive, when, as and if declared by the Board out of funds of the Corporation legally available for the payment of dividends, quarterly dividends payable in cash on the last day of each fiscal quarter of the Corporation in each year (each such date being referred to herein as a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Series A Preferred Stock, in an amount per share (rounded to the nearest cent) equal to the greater of (a) \$100 or (b) subject to the provision for adjustment hereinafter set forth, 10,000 times the aggregate per share amount of all cash dividends, and 10,000 times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions, other than a dividend payable in shares of Common Stock or a subdivision of the outstanding shares of Common Stock (by reclassification or otherwise), declared on the Common Stock since the immediately preceding Quarterly Dividend Payment Date or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series A Preferred Stock. In the event the Corporation shall at any time declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision, combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the amount to which holders of shares of Series A Preferred Stock were entitled immediately prior to such event under clause (b) of the preceding sentence shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event. In the event the Corporation shall at any time declare or pay any dividend on the Series A Preferred Stock payable in shares of Series A Preferred Stock, or effect a subdivision, combination or consolidation of the outstanding shares of Series A Preferred Stock (by reclassification or otherwise than by payment of a dividend in shares of Series A Preferred Stock) into a greater or lesser number of shares of Series A Preferred Stock, then in each such case the amount to which holders of shares of Series A Preferred Stock were entitled immediately prior to such event under clause (b) of the first sentence of this Section 2(A) shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Series A Preferred Stock that were outstanding immediately prior to such event and the denominator of which is the number of shares of Series A Preferred Stock outstanding immediately after such event.

(B) The Corporation shall declare a dividend or distribution on the Series A Preferred Stock as provided in paragraph (A) of this Section immediately after it declares a dividend or distribution on the Common Stock (other than a dividend payable in shares of Common Stock) and the Corporation shall pay such dividend or distribution on the Series A Preferred Stock before the dividend or distribution declared on the Common Stock is paid or set apart; provided that, in the event no dividend or distribution shall have been declared on the Common Stock during the period between any Quarterly Dividend Payment Date and the next subsequent Quarterly Dividend Payment Date, a dividend of \$100 per share on the Series A Preferred Stock shall nevertheless be payable on such subsequent Quarterly Dividend Payment Date.

<

>

(C) Dividends shall begin to accrue and be cumulative on outstanding shares of Series A Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such shares, unless the date of issue of such shares is prior to the record date for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series A Preferred Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series A Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board may fix a record date for the determination of holders of shares of Series A Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be not more than 60 days prior to the date fixed for the payment thereof.

3. Voting Rights. The holders of shares of Series A Preferred Stock shall have the following voting rights:

(A) Subject to the provision for adjustment hereinafter set forth, each share of Series A Preferred Stock shall entitle the holder thereof to 10,000 votes on all matters submitted to a vote of the stockholders of the Corporation. In the event the Corporation shall at any time declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision, combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the number of votes per share to which holders of shares of Series A Preferred Stock were entitled immediately prior to such event shall be adjusted by multiplying such number by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event. In the event the Corporation shall at any time declare or pay any dividend on the Series A Preferred Stock payable in shares of Series A Preferred Stock, or effect a subdivision, combination or consolidation of the outstanding shares of Series A Preferred Stock (by reclassification or otherwise than by payment of a dividend in shares of Series A Preferred Stock) into a greater or lesser number of shares of Series A Preferred Stock, then in each such case the number of votes per share to which holders of shares of Series A Preferred Stock were entitled immediately prior to such event shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Series A Preferred Stock that were outstanding immediately prior to such event and the denominator of which is the number of shares of Series A Preferred Stock outstanding immediately after such event.

(B) Except as otherwise provided herein, in the Corporation's Certificate of Incorporation or Bylaws, the holders of shares of Series A Preferred Stock and the holders of shares of Common Stock and any other capital stock of the Corporation having general voting rights shall vote together as one class on all matters submitted to a vote of stockholders of the Corporation.

<

>

(C) (i) If at any time dividends on any Series A Preferred Stock shall be in arrears in an amount equal to six quarterly dividends thereon, the holders of the Series A Preferred Stock, voting as a separate series from all other series of Preferred Stock and classes of capital stock, shall be entitled to elect two members of the Board in addition to any Directors elected by any other series, class or classes of securities and the authorized number of Directors will automatically be increased by two. Promptly thereafter, the Board of the Corporation shall, as soon as may be practicable, call a special meeting of holders of Series A Preferred Stock for the purpose of electing such members of the Board. Such special meeting shall in any event be held within 45 days of the occurrence of such arrearage.

(ii) During any period when the holders of Series A Preferred Stock, voting as a separate series, shall be entitled and shall have exercised their right to elect two Directors, then, and during such time as such right continues, (a) the then authorized number of Directors shall be increased by two, and the holders of Series A Preferred Stock, voting as a separate series, shall be entitled to elect the additional Directors so provided for, and (b) each such additional Director shall not be a member of any existing class of the Board, but shall serve until the next annual meeting of stockholders for the election of Directors, or until his successor shall be elected and shall qualify, or until his right to hold such office terminates pursuant to the provisions of this Section 3(C).

(iii) A Director elected pursuant to the terms hereof may be removed with or without cause by the holders of Series A Preferred Stock entitled to vote in an election of such Director.

(iv) If, during any interval between annual meetings of stockholders for the election of Directors and while the holders of Series A Preferred Stock shall be entitled to elect two Directors, there is no such Director in office by reason of resignation, death or removal, then, promptly thereafter, the Board shall call a special meeting of the holders of Series A Preferred Stock for the purpose of filling such vacancy and such vacancy shall be filled at such special meeting. Such special meeting shall in any event be held within 45 days of the occurrence of such vacancy.

(v) At such time as the arrearage is fully cured, and all dividends accumulated and unpaid on any shares of Series A Preferred Stock outstanding are paid, and, in addition thereto, at least one regular dividend has been paid subsequent to curing such arrearage, the term of office of any Director elected pursuant to this Section 3(C), or his successor, shall automatically terminate, and the authorized number of Directors shall automatically decrease by two, the rights of the holders of the shares of the Series A Preferred Stock to vote as provided in this Section 3(C) shall cease, subject to renewal from time to time upon the same terms and conditions, and the holders of shares of the Series A Preferred Stock shall have only the limited voting rights elsewhere herein set forth.

(D) Except as set forth herein, or as otherwise provided by law, holders of Series A Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for taking any corporate action.

<

>

#### 4. Certain Restrictions.

(A) Whenever quarterly dividends or other dividends or distributions payable on the Series A Preferred Stock as provided in Section 2 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series A Preferred Stock outstanding shall have been paid in full, the Corporation shall not:

(i) declare or pay dividends, or make any other distributions, on any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preferred Stock;

(ii) declare or pay dividends, or make any other distributions, on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Preferred Stock, except dividends paid ratably on the Series A Preferred Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

(iii) redeem or purchase or otherwise acquire for consideration shares of any stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preferred Stock, provided that the Corporation may at any time redeem, purchase or otherwise acquire shares of any such junior stock in exchange for shares of any stock of the Corporation ranking junior (either as to dividends or upon dissolution, liquidation or winding up) to the Series A Preferred Stock; or

(iv) redeem or purchase or otherwise acquire for consideration any shares of Series A Preferred Stock, or any shares of stock ranking on a parity with the Series A Preferred Stock, except in accordance with a purchase offer made in writing or by publication (as determined by the Board) to all holders of such shares upon such terms as the Board, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(B) The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under paragraph (A) of this Section 4, purchase or otherwise acquire such shares at such time and in such manner.

5. **Reacquired Shares.** Any shares of Series A Preferred Stock purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and cancelled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Preferred Stock and may be reissued as part of a new series of Preferred Stock subject to the conditions and restrictions on issuance set forth herein, in the Certificate of Incorporation, or in any other Certificate of Designations creating a series of Preferred Stock or any similar stock or as otherwise required by law.

<

>

6. Liquidation, Dissolution or Winding Up.

(A) Upon any liquidation, dissolution or winding up of the Corporation, no distribution shall be made (1) to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preferred Stock unless, prior thereto, the holders of shares of Series A Preferred Stock shall have received \$10,000 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment, provided that the holders of shares of Series A Preferred Stock shall be entitled to receive an aggregate amount per share, subject to the provision for adjustment hereinafter set forth, equal to 10,000 times the aggregate amount to be distributed per share to holders of shares of Common Stock, or (2) to the holders of shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Preferred Stock, except distributions made ratably on the Series A Preferred Stock and all such parity stock in proportion to the total amounts to which the holders of all such shares are entitled upon such liquidation, dissolution or winding up.

(B) Neither the consolidation, merger or other business combination of the Corporation with or into any other corporation nor the sale, lease, exchange or conveyance of all or any part of the property, assets or business of the Corporation shall be deemed to be a liquidation, dissolution or winding up of the Corporation for purposes of this Section 6.

(C) In the event the Corporation shall at any time declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision, combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the aggregate amount to which holders of shares of Series A Preferred Stock were entitled immediately prior to such event under the proviso in clause (1) of paragraph (A) of this Section 6 shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event. In the event the Corporation shall at any time declare or pay any dividend on the Series A Preferred Stock payable in shares of Series A Preferred Stock, or effect a subdivision, combination or consolidation of the outstanding shares of Series A Preferred Stock (by reclassification or otherwise than by payment of a dividend in shares of Series A Preferred Stock) into a greater or lesser number of shares of Series A Preferred Stock, then in each such case the aggregate amount to which holders of shares of Series A Preferred Stock were entitled immediately prior to such event under the proviso in clause (1) of paragraph (A) of this Section 6 shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Series A Preferred Stock that were outstanding immediately prior to such event and the denominator of which is the number of shares of Series A Preferred Stock outstanding immediately after such event.

7. Consolidation, Merger, etc. Notwithstanding anything to the contrary contained herein, in case the Corporation shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case each share of Series A

<

>

Preferred Stock shall at the same time be similarly exchanged or changed into an amount per share, subject to the provision for adjustment hereinafter set forth, equal to 10,000 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged. In the event the Corporation shall at any time declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision, combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the amount set forth in the preceding sentence with respect to the exchange or change of shares of Series A Preferred Stock shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event. In the event the Corporation shall at any time declare or pay any dividend on the Series A Preferred Stock payable in shares of Series A Preferred Stock, or effect a subdivision, combination or consolidation of the outstanding shares of Series A Preferred Stock (by reclassification or otherwise than by payment of a dividend in shares of Series A Preferred Stock) into a greater or lesser number of shares of Series A Preferred Stock, then in each such case the amount set forth in the first sentence of this Section 7 with respect to the exchange or change of shares of Series A Preferred Stock shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Series A Preferred Stock that were outstanding immediately prior to such event and the denominator of which is the number of shares of Series A Preferred Stock outstanding immediately after such event.

8. No Redemption. The shares of Series A Preferred Stock shall not be redeemable.

9. Rank. The Series A Preferred Stock shall rank, with respect to the payment of dividends and the distribution of assets, junior to all series of any other class of the Preferred Stock issued either before or after the issuance of the Series A Preferred Stock, unless the terms of any such series shall provide otherwise.

10. Amendment. At such time as any shares of Series A Preferred Stock are outstanding, the Certificate of Incorporation, as amended, of the Corporation shall not be amended in any manner which would materially alter or change the powers, preferences or special rights of the Series A Preferred Stock so as to affect them adversely without the affirmative vote of the holders of at least two-thirds of the outstanding shares of Series A Preferred Stock, voting together as a single class.

11. Fractional Shares. Series A Preferred Stock may be issued in fractions of a share which shall entitle the holder, in proportion to such holder's fractional shares, to exercise voting rights, receive dividends, participate in distributions and have the benefit of all other rights of holders of Series A Preferred Stock.

Fifth. Except as otherwise provided herein, the Corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by statute and this Certificate of Incorporation, and all rights conferred upon stockholders herein are granted subject to this reservation.

<

>

Sixth. In furtherance and not in limitation of the powers conferred upon it by the laws of the State of Delaware, the Board of Directors shall have the power to adopt, amend, alter or repeal the Corporation's By-laws. The affirmative vote of a majority of the directors present at any regular or special meeting of the Board of Directors at which a quorum is present shall be required to adopt, amend, alter or repeal the Corporation's By-laws. In addition to any other vote of the holders of any class or series required by law or this certificate of incorporation, the affirmative vote of the holders of at least seventy-five percent (75%) of the votes which all the stockholders would be entitled to cast in any annual election of directors or class of directors shall be required for the stockholders to adopt, amend, alter or repeal the Corporation's By-laws. Notwithstanding any other provisions of law, this Certificate of Incorporation or the By-laws of the Corporation, and notwithstanding the fact that a lesser percentage may be specified by law, the affirmative vote of the holders of at least seventy-five percent (75%) of the votes which all the stockholders would be entitled to cast in any annual election of directors or class of directors shall be required to amend or repeal, or to adopt any provision inconsistent with, this Article SIXTH.

Seventh. A director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the General Corporation Law of the State of Delaware, or (iv) for any transaction from which the director derived an improper personal benefit. If the General Corporation Law of the State of Delaware is amended to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the Corporation shall be eliminated or limited to the fullest extent permitted by the General Corporation Law of the State of Delaware, as so amended. No amendment, termination or repeal of this Article SEVENTH or of the relevant provisions of the General Corporation Law of the State of Delaware or any other applicable laws shall affect or diminish in any way the protection of any director provided by the provisions of this Article SEVENTH with respect to any action, suit, proceeding or investigation arising out of or relating to any actions, transactions or facts occurring prior to the final adoption of such amendment, termination or repeal.

Eighth.

1. Actions, Suits and Proceedings Other than by or in the Right of the Corporation. The Corporation shall indemnify each person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation), by reason of the fact that such person is or was, or has agreed to become, a director or officer of the Corporation, or is or was serving, or has agreed to serve, at the request of the Corporation, as a director, officer, partner, employee or trustee of, or in a similar capacity with, another corporation, partnership, joint venture, trust or other enterprise (including any employee benefit plan) (all such persons being referred to hereafter as an "Indemnitee"), or by reason of any action alleged to have been taken or omitted in such capacity, against all expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by the Indemnitee or on the Indemnitee's behalf in connection with such action, suit or proceeding and



>

any appeal therefrom, if the Indemnatee acted in good faith and in a manner the Indemnatee reasonably believed to be in, or not opposed to, the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe the Indemnatee's conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the Indemnatee did not act in good faith and in a manner which the Indemnatee reasonably believed to be in, or not opposed to, the best interests of the Corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that the Indemnatee's conduct was unlawful.

2. Actions or Suits by or in the Right of the Corporation. The Corporation shall indemnify any Indemnatee who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that the Indemnatee is or was, or has agreed to become, a director or officer of the Corporation, or is or was serving, or has agreed to serve, at the request of the Corporation, as a director, officer, partner, employee or trustee of, or in a similar capacity with, another corporation, partnership, joint venture, trust or other enterprise (including any employee benefit plan), or by reason of any action alleged to have been taken or omitted in such capacity, against all expenses (including attorneys' fees) and, to the extent permitted by law, judgments and amounts paid in settlement actually and reasonably incurred by the Indemnatee or on the Indemnatee's behalf in connection with such action, suit or proceeding and any appeal therefrom, if the Indemnatee acted in good faith and in a manner the Indemnatee reasonably believed to be in, or not opposed to, the best interests of the Corporation, except that no indemnification shall be made in respect of any claim, issue or matter as to which the Indemnatee shall have been adjudged to be liable to the Corporation unless and only to the extent that the Court of Chancery of Delaware shall determine upon application that, despite the adjudication of such liability but in view of all the circumstances of the case, the Indemnatee is fairly and reasonably entitled to indemnity for such expenses (including attorneys' fees) which the Court of Chancery of Delaware shall deem proper.

3. Indemnification for Expenses of Successful Party. Notwithstanding the other provisions of this Article EIGHTH, to the extent that an Indemnatee has been successful, on the merits or otherwise, in defense of any action, suit or proceeding referred to in Sections 1 and 2 of this Article EIGHTH, or in defense of any claim, issue or matter therein, or on appeal from any such action, suit or proceeding, the Indemnatee shall be indemnified against all expenses (including attorneys' fees) actually and reasonably incurred by the Indemnatee or on the Indemnatee's behalf in connection therewith. Without limiting the foregoing, if any action, suit or proceeding is disposed of, on the merits or otherwise (including a disposition without prejudice), without (i) the disposition being adverse to the Indemnatee, (ii) an adjudication that the Indemnatee was liable to the Corporation, (iii) a plea of guilty or nolo contendere by the Indemnatee, (iv) an adjudication that the Indemnatee did not act in good faith and in a manner the Indemnatee reasonably believed to be in or not opposed to the best interests of the Corporation, and (v) with respect to any criminal proceeding, an adjudication that the Indemnatee had reasonable cause to believe the Indemnatee's conduct was unlawful, the Indemnatee shall be considered for the purposes hereof to have been wholly successful with respect thereto.

<

>

4. Notification and Defense of Claim. As a condition precedent to an Indemnitee's right to be indemnified, the Indemnitee must notify the Corporation in writing as soon as practicable of any action, suit, proceeding or investigation involving the Indemnitee for which indemnity will or could be sought. With respect to any action, suit, proceeding or investigation of which the Corporation is so notified, the Corporation will be entitled to participate therein at its own expense and/or to assume the defense thereof at its own expense, with legal counsel reasonably acceptable to the Indemnitee. After notice from the Corporation to the Indemnitee of its election so to assume such defense, the Corporation shall not be liable to the Indemnitee for any legal or other expenses subsequently incurred by the Indemnitee in connection with such action, suit, proceeding or investigation, other than as provided below in this Section 4. The Indemnitee shall have the right to employ the Indemnitee's own counsel in connection with such action, suit, proceeding or investigation, but the fees and expenses of such counsel incurred after notice from the Corporation of its assumption of the defense thereof shall be at the expense of the Indemnitee unless (i) the employment of counsel by the Indemnitee has been authorized by the Corporation, (ii) counsel to the Indemnitee shall have reasonably concluded that there may be a conflict of interest or position on any significant issue between the Corporation and the Indemnitee in the conduct of the defense of such action, suit, proceeding or investigation or (iii) the Corporation shall not in fact have employed counsel to assume the defense of such action, suit, proceeding or investigation, in each of which cases the fees and expenses of counsel for the Indemnitee shall be at the expense of the Corporation, except as otherwise expressly provided by this Article EIGHTH. The Corporation shall not be entitled, without the consent of the Indemnitee, to assume the defense of any claim brought by or in the right of the Corporation or as to which counsel for the Indemnitee shall have reasonably made the conclusion provided for in clause (ii) above. The Corporation shall not be required to indemnify the Indemnitee under this Article EIGHTH for any amounts paid in settlement of any action, suit, proceeding or investigation effected without the Corporation's written consent. The Corporation shall not settle any action, suit, proceeding or investigation in any manner which would impose any penalty or limitation on the Indemnitee without the Indemnitee's written consent. Neither the Corporation nor the Indemnitee will unreasonably withhold or delay its consent to any proposed settlement.

5. Advance of Expenses. Subject to the provisions of Section 6 of this Article EIGHTH, in the event that the Corporation does not assume the defense pursuant to Section 4 of this Article EIGHTH of any action, suit, proceeding or investigation of which the Corporation receives notice under this Article EIGHTH, any expenses (including attorneys' fees) incurred by an Indemnitee in defending a civil or criminal action, suit, proceeding or investigation or any appeal therefrom shall be paid by the Corporation in advance of the final disposition of such matter; provided, however, that the payment of such expenses incurred by the Indemnitee in advance of the final disposition of such matter shall be made only upon receipt of an undertaking by or on behalf of the Indemnitee to repay all amounts so advanced in the event that it shall ultimately be determined that the Indemnitee is not entitled to be indemnified by the Corporation as authorized in this Article EIGHTH; and further provided that no such advancement of expenses shall be made if it is determined (in the manner described in Section 6) that (i) the Indemnitee did not act in good faith and in a manner the Indemnitee reasonably believed to be in, or not opposed to, the best interests of the Corporation, or (ii) with respect to any criminal action or proceeding, the Indemnitee had reasonable cause to believe the Indemnitee's conduct was unlawful. Such undertaking shall be accepted without reference to the financial ability of the Indemnitee to make such repayment.

<

>

6. Procedure for Indemnification. In order to obtain indemnification or advancement of expenses pursuant to Section 1, 2, 3 or 5 of this Article EIGHTH, the Indemnitee shall submit to the Corporation a written request, including in such request such documentation and information as is reasonably available to the Indemnitee and is reasonably necessary to determine whether and to what extent the Indemnitee is entitled to indemnification or advancement of expenses. Any such advancement of expenses shall be made promptly, and in any event within 60 days after receipt by the Corporation of the written request of the Indemnitee, unless with respect to requests under Section 1, 2 or 5 of this Article EIGHTH the Corporation determines within such 60-day period that the Indemnitee did not meet the applicable standard of conduct set forth in Section 1, 2 or 5 of this Article EIGHTH, as the case may be. Any such indemnification, unless ordered by a court, shall be made with respect to requests under Section 1, 2 or 5 only as authorized in the specific case upon a determination by the Corporation that the indemnification of the Indemnitee is proper because the Indemnitee has met the applicable standard of conduct set forth in Section 1, 2 or 5, as the case may be. Such determination shall be made in each instance (a) by a majority vote of the directors of the Corporation consisting of persons who are not at that time parties to the action, suit or proceeding in question ("disinterested directors"), whether or not constituting a quorum, (b) by a majority vote of a committee of disinterested directors designated by majority vote of disinterested directors, whether or not constituting a quorum, (c), if there are no disinterested directors, or if disinterested directors so direct, by independent legal counsel (who may, to the extent permitted by law, be regular legal counsel to the Corporation) in a written opinion, or (d) by the stockholders of the Corporation.

7. Remedies. The right to indemnification or advances as granted by this Article EIGHTH shall be enforceable by the Indemnitee in any court of competent jurisdiction. Neither the failure of the Corporation to have made a determination prior to the commencement of such action that indemnification is proper in the circumstances because the Indemnitee has met the applicable standard of conduct, nor an actual determination by the Corporation pursuant to Section 6 of this Article EIGHTH that the Indemnitee has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that the Indemnitee has not met the applicable standard of conduct. The Indemnitee's expenses (including attorneys' fees) incurred in connection with successfully establishing the Indemnitee's right to indemnification, in whole or in part, in any such proceeding shall also be indemnified by the Corporation.

8. Limitations. Notwithstanding anything to the contrary in this Article EIGHTH, except as set forth in Section 7 of this Article EIGHTH, the Corporation shall not indemnify an Indemnitee in connection with a proceeding (or part thereof) initiated by the Indemnitee unless the initiation thereof was approved by the Board of Directors of the Corporation. Notwithstanding anything to the contrary in this Article EIGHTH, the Corporation shall not indemnify an Indemnitee to the extent such Indemnitee is reimbursed from the proceeds of insurance, and in the event the Corporation makes any indemnification payments to an Indemnitee and such Indemnitee is subsequently reimbursed from the proceeds of insurance, such Indemnitee shall promptly refund such indemnification payments to the Corporation to the extent of such insurance reimbursement.

<

>

9. Subsequent Amendment. No amendment, termination or repeal of this Article EIGHTH or of the relevant provisions of the General Corporation Law of the State of Delaware or any other applicable laws shall affect or diminish in any way the rights of any Indemnatee to indemnification under the provisions hereof with respect to any action, suit, proceeding or investigation arising out of or relating to any actions, transactions or facts occurring prior to the final adoption of such amendment, termination or repeal.

10. Other Rights. The indemnification and advancement of expenses provided by this Article EIGHTH shall not be deemed exclusive of any other rights to which an Indemnatee seeking indemnification or advancement of expenses may be entitled under any law (common or statutory), agreement or vote of stockholders or disinterested directors or otherwise, both as to any action in the Indemnatee's official capacity and as to any action in any other capacity while holding office for the Corporation, and shall continue as to an Indemnatee who has ceased to be a director or officer, and shall inure to the benefit of the estate, heirs, executors and administrators of the Indemnatee. Nothing contained in this Article EIGHTH shall be deemed to prohibit, and the Corporation is specifically authorized to enter into, agreements with officers and directors providing indemnification rights and procedures different from those set forth in this Article EIGHTH. In addition, the Corporation may grant indemnification rights to other employees or agents of the Corporation or other persons serving the Corporation and such rights may be equivalent to, or greater or less than, those set forth in this Article EIGHTH.

11. Partial Indemnification. If an Indemnatee is entitled under any provision of this Article EIGHTH to indemnification by the Corporation for some or a portion of the expenses (including attorneys' fees), judgments, fines or amounts paid in settlement actually and reasonably incurred by the Indemnatee or on the Indemnatee's behalf in connection with any action, suit, proceeding or investigation and any appeal therefrom but not, however, for the total amount thereof, the Corporation shall nevertheless indemnify the Indemnatee for the portion of such expenses (including attorneys' fees), judgments, fines or amounts paid in settlement to which the Indemnatee is entitled.

12. Insurance. The Corporation may purchase and maintain insurance, at its expense, to protect itself and any director, officer, partner, employee or agent of the Corporation or another corporation, partnership, joint venture, trust or other enterprise (including any employee benefit plan) against any expense, liability or loss incurred by such person in any such capacity, or arising out of such person's status as such, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss under the General Corporation Law of the State of Delaware.

13. Merger or Consolidation. If the Corporation is merged into or consolidated with another corporation and the Corporation is not the surviving corporation, the surviving corporation shall assume the obligations of the Corporation under this Article EIGHTH with respect to any action, suit, proceeding or investigation arising out of or relating to any actions, transactions or facts occurring prior to the date of such merger or consolidation.

14. Savings Clause. If this Article EIGHTH or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the Corporation shall nevertheless indemnify each Indemnatee as to any expenses (including attorneys' fees), judgments, fines and

<

>

amounts paid in settlement in connection with any action, suit, proceeding or investigation, whether civil, criminal or administrative, including an action by or in the right of the Corporation, to the fullest extent permitted by any applicable portion of this Article EIGHTH that shall not have been invalidated and to the fullest extent permitted by applicable law.

15. Definitions. Terms used herein and defined in Section 145(h) and Section 145(i) of the General Corporation Law of the State of Delaware shall have the respective meanings assigned to such terms in such Section 145(h) and Section 145(i).

16. Subsequent Legislation. If the General Corporation Law of the State of Delaware is amended after adoption of this Article EIGHTH to expand further the indemnification permitted to Indemnitees, then this Article EIGHTH shall be deemed and construed to require the Corporation to indemnify such persons to the fullest extent permitted by the General Corporation Law of the State of Delaware, as so amended.

Ninth. This Article NINTH is inserted for the management of the business and for the conduct of the affairs of the Corporation.

1. Number of Directors; Election of Directors. Subject to the rights of holders of any series of Preferred Stock to elect directors, the number of directors of the Corporation shall not be less than three. The exact number of directors within the limitations specified in the preceding sentence shall be determined from time to time by, or in the manner provided in, the By-laws of the Corporation. Election of directors need not be by written ballot, except as and to the extent provided in the By-laws of the Corporation.

2. Classes of Directors. Subject to the rights of holders of any series of Preferred Stock to elect directors, the Board of Directors shall be and is divided into three classes: Class I, Class II and Class III. No one class shall have more than one director more than any other class. If a fraction is contained in the quotient arrived at by dividing the authorized number of directors by three, then, if such fraction is one-third, the extra director shall be a member of Class I, and if such fraction is two-thirds, one of the extra directors shall be a member of Class I and one of the extra directors shall be a member of Class II, unless otherwise provided by resolution of the Board of Directors.

3. Terms of Office. Subject to the rights of holders of any series of Preferred Stock to elect directors, each director shall serve for a term ending on the date of the third annual meeting following the annual meeting at which such director was elected; provided, however, that each director initially appointed to Class I shall serve for a term expiring at the Corporation's annual meeting of stockholders held in 2002; each director initially appointed to Class II shall serve for a term expiring at the Corporation's annual meeting of stockholders held in 2003; and each director initially appointed to Class III shall serve for a term expiring at the Corporation's annual meeting of stockholders held in 2004; provided further, that the term of each director shall continue until the election and qualification of such director's successor and be subject to such director's earlier death, resignation or removal.

<

>

4. Allocation of Directors Among Classes in the Event of Increases or Decreases in the Authorized Number of Directors. In the event of any increase or decrease in the authorized number of directors, (i) each director then serving as such shall nevertheless continue as a director of the class of which such director is a member until the expiration of such director's current term, subject to such director's earlier death, resignation or removal and (ii) the newly created or eliminated directorships resulting from such increase or decrease shall be apportioned by the Board of Directors among the three classes of directors in accordance with the provisions of Section 2 of this Article NINTH. To the extent possible, consistent with the provisions of Section 2 of this Article NINTH, any newly created directorships shall be added to those classes whose terms of office are to expire at the latest dates following such allocation, and any newly eliminated directorships shall be subtracted from those classes whose terms of offices are to expire at the earliest dates following such allocation, unless otherwise provided from time to time by resolution of the Board of Directors.

5. Quorum. A majority of the directors at any time in office shall constitute a quorum for the transaction of business. In the event one or more of the directors shall be disqualified to vote at any meeting, then the required quorum shall be reduced by one for each director so disqualified, provided that in no case shall less than one-third of the number of directors fixed pursuant to Section 1 of this Article NINTH constitute a quorum. If at any meeting of the Board of Directors there shall be less than such a quorum, a majority of the directors present may adjourn the meeting from time to time without further notice other than announcement at the meeting, until a quorum shall be present.

6. Action at Meeting. Every act or decision done or made by a majority of the directors present at a meeting duly held at which a quorum is present shall be regarded as the act of the Board of Directors unless a greater number is required by law, by this Certificate of Incorporation, or by the By-laws of the Corporation.

7. Removal. Subject to the rights of holders of any series of Preferred Stock to elect directors, directors of the Corporation may be removed only for cause by the affirmative vote of the holders of at least seventy-five percent (75%) of the votes which all the stockholders would be entitled to cast in any annual election of directors or class of directors.

8. Vacancies. Subject to the rights of holders of any series of Preferred Stock to elect directors, any vacancy or newly-created directorship in the Board of Directors, however occurring, shall be filled only by vote of a majority of the directors then in office, although less than a quorum, or by a sole remaining director and shall not be filled by stockholders. A director elected to fill a vacancy shall be elected to hold office until the next election of the class for which such director shall have been chosen, subject to the election and qualification of such director's successor and subject to such director's earlier death, resignation or removal.

9. Stockholder Nominations and Introduction of Business, Etc. Advance notice of stockholder nominations for election of directors and other business to be brought by stockholders before a meeting of stockholders shall be given in the manner provided by the By-laws of the Corporation.

<

>

10. Amendments to Article. Notwithstanding any other provisions of law, this Certificate of Incorporation or the By-laws of the Corporation, and notwithstanding the fact that a lesser percentage may be specified by law, the affirmative vote of the holders of at least seventy-five percent (75%) of the votes which all the stockholders would be entitled to cast in any annual election of directors or class of directors shall be required to amend or repeal, or to adopt any provision inconsistent with, this Article NINTH.

Tenth. Stockholders of the Corporation may not take any action by written consent in lieu of a meeting. Notwithstanding any other provisions of law, this Certificate of Incorporation or the By-laws of the Corporation, and notwithstanding the fact that a lesser percentage may be specified by law, the affirmative vote of the holders of at least seventy-five percent (75%) of the votes which all the stockholders would be entitled to cast in any annual election of directors or class of directors shall be required to amend or repeal, or to adopt any provision inconsistent with, this Article TENTH.

Eleventh. Special meetings of stockholders for any purpose or purposes may be called at any time by the Board of Directors, the Chairman of the Board, the Chief Executive Officer or, if the Corporation does not have a Chief Executive Officer, the President, but such special meetings may not be called by any other person or persons. Business transacted at any special meeting of stockholders shall be limited to matters relating to the purpose or purposes stated in the notice of meeting. Notwithstanding any other provision of law, this Certificate of Incorporation or the By-laws of the Corporation, and notwithstanding the fact that a lesser percentage may be specified by law, the affirmative vote of the holders of at least seventy-five percent (75%) of the votes which all the stockholders would be entitled to cast in any annual election of directors or class of directors shall be required to amend or repeal, or to adopt any provision inconsistent with, this Article ELEVENTH.

\*\*\*\*\*

>

IN WITNESS WHEREOF, this Restated Certificate of Incorporation, which restates, integrates and amends the Certificate of Incorporation of the Corporation, and which has been duly adopted in accordance with Section 242 and 245 of the Delaware General Corporation Law, has been executed by its duly authorized officer this 7th day of August, 2001.

KADANT INC.

By: /s/ Sandra L. Lambert

-----  
Sandra L. Lambert  
Secretary