

KADANT INC
Form DEF 14A
April 20, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a)

of the Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to Rule 14a-12

Kadant Inc.

(Name of the Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

One Acton Place, Suite 202

Acton, MA 01720

April 17, 2006

Dear Stockholder:

I am pleased to invite you to attend the 2006 annual meeting of stockholders of Kadant Inc. The meeting will be held on Thursday, May 25, 2006, at 2:30 p.m. at the Boston Marriott Burlington located at One Mall Road, Burlington, Massachusetts. Details regarding the business to be conducted at the meeting are described in the enclosed notice of the meeting and proxy statement.

This mailing also includes our 2005 annual report to stockholders, which contains information about our businesses and our 2005 financial statements, a proxy card for you to record your vote and a return, postage-paid envelope for your proxy card.

Your vote is very important. Whether or not you plan to attend the meeting in person, I hope you will vote as soon as possible. Please register your vote by completing and signing the enclosed proxy card and returning it to our transfer agent, American Stock Transfer & Trust Company, in the addressed, postage-paid envelope we have provided.

Thank you for your support and continued interest in Kadant.

Sincerely,

WILLIAM A. RAINVILLE

Chairman and Chief Executive Officer

One Acton Place, Suite 202

Acton, MA 01720

April 17, 2006

To Stockholders of

KADANT INC.

NOTICE OF ANNUAL MEETING

The 2006 annual meeting of stockholders of Kadant Inc. will be held on Thursday, May 25, 2006, at 2:30 p.m. at the Boston Marriott Burlington located at One Mall Road, Burlington, Massachusetts. The purpose of the meeting is to consider and take action upon the following matters:

1. Election of two directors, constituting the entire class of directors to be elected for a three-year term expiring in the year 2009.
2. Approval of the company's 2006 equity incentive plan.
3. Such other business as may properly be brought before the meeting and any adjournment of the meeting.

The record date for the determination of the stockholders entitled to receive notice of and to vote at the meeting is April 10, 2006. Our stock transfer books will remain open.

Our bylaws require that the holders of a majority of the shares of our common stock, issued and outstanding and entitled to vote at the meeting, be present in person or represented by proxy at the meeting in order to constitute a quorum for the transaction of business. Accordingly, it is important that your shares be represented at the meeting regardless of the number of shares you may hold. Whether or not you plan to attend the meeting in person, please promptly sign and return the enclosed proxy in the accompanying envelope, which requires no postage if mailed in the United States.

This notice, the proxy and proxy statement are sent to you by order of our board of directors.

SANDRA L. LAMBERT

Vice President, General Counsel and Secretary

PROXY STATEMENT

This proxy statement is furnished in connection with the solicitation of proxies by the board of directors of Kadant Inc. for use at our 2006 annual meeting of stockholders to be held on Thursday, May 25, 2006, at 2:30 p.m. at the Boston Marriott Burlington, One Mall Road, Burlington, Massachusetts, and at any adjournment of that meeting. The mailing address of our executive office is One Acton Place, Suite 202, Acton, Massachusetts 01720. The notice of annual meeting, this proxy statement and the enclosed proxy are being first furnished to our stockholders on or about April 20, 2006.

VOTING PROCEDURES

Our board of directors intends to present to the meeting the nomination of two individuals for election to the class of directors whose three-year term will expire in 2009 and the approval of the company's 2006 equity incentive plan.

The holders of a majority of the shares of our common stock, \$.01 par value per share, that are issued and outstanding and entitled to vote at the meeting constitute a quorum for the transaction of business at the meeting. Shares present in person or represented by proxy (including broker non-votes and shares that abstain, withhold votes or do not vote on one or more of the matters presented for stockholder approval) will be counted for purposes of determining whether a quorum exists at the meeting. A broker non-vote occurs when a broker or representative does not vote on a particular matter because it either does not have discretionary voting authority on that matter or it does not exercise its discretionary voting authority on that matter.

Each share of common stock you hold is entitled to one vote for or against a proposal. Shares represented by proxy will be voted in accordance with your instructions. You may specify your choice by marking the appropriate box on the proxy card. If your proxy card is signed and returned without specifying choices, your shares will be voted for the nominees listed, for approval of the company's 2006 equity incentive plan and as the individuals named as proxy holders on the proxy deem advisable on all other matters that may properly come before the meeting.

If you hold your shares in street name through a broker, bank or other representative, generally the broker or other representative may only vote the shares that it holds for you in accordance with your instructions. However, if the broker or other representative has not timely received your instructions, it may vote on certain matters for which it has discretionary voting authority.

The election of directors is determined by a plurality of the votes cast in person or by proxy by the stockholders entitled to vote on the election of directors. An instruction to withhold authority to vote for a nominee for director and broker non-votes will have no effect upon the outcome of the vote on the election of directors.

Approval of the proposal to approve our 2006 equity incentive plan requires a majority of the votes cast by the holders of the shares present or represented by proxy and voting on such matter. Under our bylaws, abstentions and broker non-votes will have no effect on the determination of whether stockholders have approved the plan. However, under the listing requirements of the New York Stock Exchange, the proposal to approve the company's 2006 equity incentive plan also requires (a) that a majority of the shares entitled to vote at the meeting are voted on the matter (with abstentions counting as votes and broker non-votes not counting as votes) and (b) a majority of the votes cast on the matter are voted in favor of the matter (with abstentions counting as votes cast and broker non-votes not counting as votes cast).

Once you have returned your proxy, you may revoke it at any time before the shares are voted at the meeting by written notice received by our corporate secretary before the meeting, by executing and returning a

new proxy bearing a later date or by voting in person at the meeting. Attendance at the meeting without voting will not revoke a previously submitted proxy.

When more than one stockholder share the same address, we may deliver only one annual report and one proxy statement to that address. Similarly, beneficial owners with the same address who hold their shares in street name through a broker, bank or other representative may have elected to receive only one copy of these documents at that address. We will promptly send a separate copy of either document to you if you request one by writing or calling us at Kadant Inc., One Acton Place, Suite 202, Acton, Massachusetts 01720 (telephone: 978-776-2000). If you are receiving multiple copies and would like to receive only one copy for your household in the future, you should contact your broker, bank or other representative if you hold shares in street name, or contact our transfer agent, American Stock Transfer & Trust Company, Shareholder Services Department, 59 Maiden Lane, New York, New York 10038 (telephone: 718-921-8200) if you hold shares in your own name.

Our outstanding capital stock entitled to vote at the meeting (which excludes shares held in our treasury) as of April 10, 2006, consisted of 13,600,665 shares of our common stock. Only stockholders of record at the close of business on April 10, 2006, will be entitled to vote at the meeting. Each share is entitled to one vote.

PROPOSAL 1

ELECTION OF DIRECTORS

Our board of directors is divided into three classes of directors serving staggered three-year terms, with each class being as nearly equal in number as possible. Directors for each class are elected at the annual meeting of stockholders held in the year in which the term for their class expires.

Our board of directors has nominated the following two individuals for election as directors for the three-year term expiring in 2009: Dr. John K. Allen and Mr. Francis L. McKone. Both Dr. Allen and Mr. McKone are currently members of our board of directors. If either nominee becomes unavailable, the persons acting under the proxy may vote the proxy for the election of a substitute nominee to be designated by our board of directors. We do not expect that either Dr. Allen or Mr. McKone will be unable to serve. Directors serve until the expiration of their terms, until their successors have been elected and qualified or until their earlier resignation, death or removal.

Our board of directors believes that the election of Dr. Allen and Mr. McKone as directors is in the best interests of our company and our stockholders and recommends a vote **FOR** their election.

Information regarding the business experience of each of our directors is provided below. Information on the stock ownership of our directors is provided in this proxy statement under the heading **Stock Ownership**.

Nominees for Director for the Three-Year Term That Will Expire in 2009

John K. Allen

Dr. Allen, 54, joined our board of directors in April 2002. Dr. Allen has been a partner of West Falmouth Associates, LLC, a firm specializing in strategy and organizational effectiveness, since August 2004. Prior to founding West Falmouth Associates, Dr. Allen was the chairman, president and chief executive officer of Lawrence R. McCoy & Co., Inc., a privately held wholesale distributor of fencing, flooring, specialty building material and industrial wood components, from 2001 to 2004. From 1998 to 2001, Dr. Allen was a principal of Allen Associates, a national management consulting practice. From 1994 to 1998, he was an executive with WPI Group, Inc., a manufacturer of power conversion products, hand-held terminals and computers, and related software products. Dr. Allen is also a director of WICN, a non-profit public radio station, and a director of The New England Society for Applied Psychology, Inc.

Francis L. McKone

Mr. McKone, 71, has been a member of our board of directors since March 1998. Mr. McKone was chairman of the board of Albany International Corp., a worldwide supplier of paper machine fabrics, from 1998 until his retirement in 2001. He also served as the chief executive officer of Albany International Corp. from 1993 to 2000 and as its president from 1984 to 1998. Mr. McKone is currently a director of Albany International Corp., a trustee and member of the finance committee of the Rensselaer Polytechnic Institute and a member of the advisory board of the College of Engineering at the University of Massachusetts, Lowell.

Our directors listed below are not up for election this year and will continue in office for the remainder of their terms or earlier in accordance with our bylaws.

Director Whose Term Will Expire in 2007

William A. Rainville

Mr. Rainville, 64, has been our president and chief executive officer since our incorporation in 1991, a member of our board of directors since 1992, and chairman of our board of directors since August 2001. Mr. Rainville was chief operating officer, recycling and resource recovery, of Thermo Electron Corporation, a manufacturer of high-tech instrumentation, from 1998 until our spinoff from Thermo Electron in August 2001. He was also a senior vice president of Thermo Electron from 1993 to 1998. He joined Thermo Electron in 1972 and became a vice president in 1986. Prior to joining Thermo Electron, he held positions at Drott Manufacturing, Paper Industry Engineering and Sterling Pulp and Paper.

Directors Whose Term Will Expire in 2008

John M. Albertine

Dr. Albertine, 61, has been a member of our board of directors since June 2001. Dr. Albertine has been the chairman and chief executive officer of Albertine Enterprises, Inc., a consulting and merchant-banking firm, since 1990. He also has served since 2005 as a principal of JJ&B, LLC, an investment bank he founded that provides finance, public policy and legal assistance to clients; since 2004 as the executive chairman of Global Delta, LLC, a Washington, D.C.-based government contractor specializing in advanced sensor radio frequency and electro-optical technologies; and since 2001 as the managing partner and founder of High Street Capital Management, LLC, a private equity fund. Dr. Albertine served as president of the American Business Conference, founded by Arthur Levitt, Jr., from 1981 to 1986; executive director of the Congressional Joint Economic Committee under Chairman Senator Lloyd Bentsen from 1979 to 1980; and as head of a presidential committee on aviation safety under President Ronald Reagan from 1987 to 1988. Dr. Albertine is also a director of Intermagnetics General Corp., chairman of the board of Semco Energy, Inc., and a trustee and vice-chairman of the Virginia Retirement System, a public pension fund.

Thomas C. Leonard

Mr. Leonard, 51, has been a member of our board of directors since June 2005 and has been designated the board's audit committee financial expert. Mr. Leonard has been a managing director specializing in forensic accounting and dispute resolution at Huron Consulting Group LLC, a publicly traded management consulting firm, since December 2002. Mr. Leonard has over 25 years of experience in providing financial services to global and national organizations. Before joining Huron, Mr. Leonard was a senior partner at Arthur Andersen LLP, an independent public accounting firm, from 1987 through 2002 and served as partner-in-charge of its New England assurance and business advisory practice. Mr. Leonard is a certified public accountant.

Compensation of Directors

Effective July 1, 2005, our non-management directors are paid the following meeting and retainer fees for serving on our board of directors:

An annual retainer of \$18,000, payable in monthly installments of \$1,500 each.

A meeting fee of \$1,500 for attending regular meetings of our board of directors in person and \$750 for participating in meetings held by telephone in which substantive action is taken or that last more than one hour.

A meeting fee of \$500 for attending regularly scheduled committee meetings of the board of directors in person and \$250 for participating in committee meetings held by telephone in which substantive action is taken or that last more than one hour.

An annual retainer for chairmen of the following committees: Audit Committee \$3,000; Compensation Committee \$2,000; Nominating and Corporate Governance Committee \$1,000.

Reimbursement of out-of-pocket expenses incurred in attending or participating in meetings of our board of directors or its committees.

Each of our non-management directors also receive 5,000 restricted shares of our common stock annually under the following compensation arrangements. In 2005, each non-management director received 2,500 restricted shares of our common stock in April under our directors restricted stock plan and an additional 2,500

restricted shares in June under our equity incentive plan. Restrictions on the shares lapse upon the first to occur of (i) the third anniversary of the award, (ii) the retirement of the director from the board of directors or (iii) the director's death. Directors are permitted to sell enough shares to satisfy the federal and state income taxes incurred as a consequence of the issuance of shares. In the event of a change in control and the failure of a director to be reelected within one year, the director is entitled to receive additional unrestricted shares equal to the number of shares he would have received if he had remained a director for the balance of the term of the director's restricted stock plan. This plan expires on March 31, 2007.

Our non-management directors may also be granted stock options periodically under our equity incentive plan.

Corporate Governance

Our board of directors believes that good corporate governance is important to ensure that our company is managed for the long-term benefit of stockholders. Our board of directors continues to review our governance practices in light of the Sarbanes-Oxley Act of 2002, rules and regulations issued by the U.S. Securities and Exchange Commission (SEC) and the corporate governance rules of the New York Stock Exchange (NYSE) contained in its listing standards. Current copies of our corporate governance guidelines, committee charters and code of business conduct and ethics are available on our web site, www.kadant.com, in the Investors section under the caption Corporate Governance, and may also be obtained by any stockholder free of charge by writing to us at our principal executive office located at One Acton Place, Suite 202, Acton, Massachusetts 01720.

Independence of Non-management Directors. Our board of directors has determined that each of our non-management directors, Dr. Albertine, Dr. Allen, Mr. Leonard and Mr. McKone qualifies as an independent director, as defined in the listing requirements of the NYSE, on which our common stock is listed. Its findings included an affirmative determination that none of our non-management directors has a material relationship with our company. Our board of directors established guidelines to assist it in determining whether a director has a material relationship with our company. Under these guidelines, a director is not considered to have a material relationship with our company if (1) the director is independent, as defined in the NYSE corporate governance rules, and (2) the director:

receives, or has a family member that receives, less than \$60,000 in direct compensation from our company for services rendered, excluding director and committee fees or deferred compensation for prior service;

is an executive officer of another company that does business with our company, unless the annual sales to, or purchases from, our company account for more than 2% or \$1 million, whichever is greater, of the annual consolidated gross revenues of the company of which the director is an executive officer;

is an executive officer of another company that is indebted to our company, or to which our company is indebted, unless the total amount of either company's indebtedness to the other is more than 1% of the total consolidated assets of the company of which the director is an executive officer; or

is an officer, director or trustee of a charitable organization, unless our company's discretionary charitable contributions to the organization are more than the greater of \$1 million or 2% of the organization's total annual charitable receipts. For this purpose, the automatic matching of employee charitable contributions is not included in the amount of our company's contributions.

In addition, ownership of a significant amount of our company's stock, by itself, does not constitute a material relationship.

For relationships not covered by these guidelines, the determination of whether a material relationship exists is made by the other members of our board of directors who are independent.

Committees of our Board of Directors. Our board of directors has established an audit committee, a compensation committee and a nominating and corporate governance committee. Each committee operates under

a charter that has been approved by our board of directors. Current copies of the committee charters are posted on our web site, as described above.

Our board of directors has determined that the members of each committee also meet the independence guidelines applicable to each committee set forth in the listing requirements of the NYSE.

The audit committee assists our board of directors in its oversight of the integrity of our financial statements, our compliance with legal and regulatory requirements, our independent auditor's performance, qualifications and independence, and the performance of our internal audit function. The committee meets regularly with management and our independent auditor to discuss the annual audit of our financial statements, the quarterly reviews of our financial statements and our quarterly and annual earnings disclosures. The current members of the audit committee are Mr. McKone (chairman), Dr. Albertine, Dr. Allen and Mr. Leonard, and their committee report is included in this proxy statement under the heading "Audit Committee Report." Mr. Leonard has been designated by our board of directors as its audit committee financial expert (as defined in Item 401(h) of Regulation S-K under the Securities Exchange Act of 1934, as amended (the "Exchange Act")).

The compensation committee reviews the performance and determines the compensation of the chief executive officer and other officers of our company, administers employee compensation, incentive compensation and incentive programs and policies, and reviews and assesses management succession planning. The current members of the compensation committee are Dr. Albertine (chairman) and Mr. McKone.

The nominating and corporate governance committee identifies and recommends to our board of directors qualified candidates for nomination as directors, develops and monitors our company's corporate governance principles and evaluates our board's performance. The current members of the nominating and corporate governance committee are Dr. Allen (chairman), Dr. Albertine and Mr. McKone.

Attendance at Meetings. In 2005, our board of directors met ten times, the audit committee met seven times, the compensation committee met seven times, and the nominating and corporate governance committee met three times. Each director attended over 75% of all meetings of our board of directors and committees on which he served that were held during 2005.

Our directors are encouraged to attend the annual meeting of stockholders, to the extent practicable. All of our directors attended the 2005 annual meeting of stockholders.

Executive Sessions and Presiding Director. Our non-management and independent directors meet at regularly scheduled executive sessions without management. The presiding director at these sessions is rotated among the chairmen of the committees of our board of directors.

Nomination of Directors. The nominating and corporate governance committee identifies and evaluates director candidates and recommends to our board of directors qualified candidates for nomination as directors for election at the company's annual meeting of stockholders or to fill vacancies on our board of directors. The process followed by the committee in fulfilling its responsibilities includes requests to board members and others for recommendations, meetings to evaluate biographical information, experience and other background material relating to potential candidates, and interviews of selected candidates.

In considering candidates, the committee applies the criteria for selection of directors adopted by our board of directors, which is set forth in an appendix to our company's corporate governance guidelines. The committee assesses, in its judgment, the criteria possessed by the candidate, which include: integrity; business acumen, experience and judgment; knowledge of the company's business and industry; ability to understand the interests of various constituencies of the company and to act in the interests of all stockholders; potential conflicts of interest; and contribution to diversity on our board of directors. The committee believes that the backgrounds and qualifications of our company's directors, considered as a group, should provide a significant breadth of experience, knowledge and abilities to assist our board of directors in fulfilling its responsibilities.

After completing its evaluation, the nominating and corporate governance committee makes a recommendation to our board of directors as to the persons who should be nominated for election to our board of directors, and our board of directors determines the nominees after considering the recommendation and report of the committee.

The nominating and corporate governance committee will consider candidates recommended by individual stockholders, if their names and credentials are provided to the committee on a timely basis for consideration prior to the annual meeting. Stockholders who wish to recommend an individual to the nominating and corporate governance committee for consideration as a potential candidate for director should submit the name, together with appropriate supporting documentation, to the committee at the following address: nominating and corporate governance committee, c/o corporate secretary, Kadant Inc., One Acton Place, Suite 202, Acton, Massachusetts 01720. A submission will be considered timely if it is made during the timeframes disclosed in this proxy statement under **Stockholder Proposals**. The submission must be accompanied by a statement as to whether the stockholder or group of stockholders making the recommendation has owned more than 5% of our common stock for at least a year prior to the date the recommendation is made. Submissions meeting these requirements will be considered by the committee using the same process and applying substantially the same criteria as followed for candidates submitted by others. If our board of directors determines to nominate and recommend for election a stockholder-recommended candidate, then the candidate's name will be included in our company's proxy card for the next annual meeting of stockholders.

Stockholders also have the right under our company's bylaws to directly nominate candidates for director, without any action or recommendation on the part of the nominating and corporate governance committee or our board of directors, by following the procedures described in this proxy statement under **Stockholder Proposals**. Candidates nominated by stockholders in accordance with these bylaw procedures will not be included in the company's proxy card for the next annual meeting of stockholders.

Communications with Independent Directors. Stockholders and other interested parties who wish to send written communications on any topic to our board of directors, or the presiding director of executive sessions of the non-management and independent directors, may do so by addressing such communications to the board of directors, c/o corporate secretary, Kadant Inc., One Acton Place, Suite 202, Acton, Massachusetts 01720. The independent members of our board of directors have approved a process directing the corporate secretary to monitor communications and to forward certain communications to our board of directors and other matters relating to ordinary business affairs to management for response, if any.

Code of Business Conduct and Ethics. The company has maintained a code of business conduct and ethics, applicable to all its employees, for many years. A current copy of the company's code of business conduct and ethics is posted on our web site, www.kadant.com, in the Investors section under the caption **Corporate Governance**. We intend to disclose any amendments to, or waivers from, our code of business conduct and ethics on our web site at that location.

Certain Relationships and Related Party Transactions. SEC rules require us to disclose certain relationships and related party transactions the company enters into with our directors, executive officers, owners of more than 5% of the outstanding shares of our common stock, or members of their immediate families. The company has not entered into any such disclosable relationships or transactions.

STOCK OWNERSHIP

The following table sets forth the beneficial ownership of shares of our common stock as of March 1, 2006, with respect to (i) those persons we know to beneficially own more than 5% of the outstanding shares of our common stock based on our review of filings made with the SEC, (ii) each of our directors and nominees for director, (iii) each of our executive officers named in the summary compensation table under the heading "Executive Compensation" and (iv) all of our directors and current executive officers as a group. Unless otherwise indicated, the address of any person or entity listed is c/o Kadant Inc., One Acton Place, Suite 202, Acton, Massachusetts 01720.

Name of Beneficial Owner (1)	Shares of Common Stock Beneficially Owned	
	Number (2)	% of Class
The PNC Financial Services Group, Inc. (3)	1,217,320	9.0%
Dimensional Fund Advisors Inc. (4)	1,191,731	8.8%
Wachovia Corporation (5)	1,186,898	8.7%
Wellington Management Company, LLP (6)	729,956	5.4%
John M. Albertine	17,834	*
John K. Allen	28,647	*
Rudolf A. Leerentveld	0	*
Thomas C. Leonard	2,500	*
Francis L. McKone	40,329	*
Thomas M. O'Brien	162,824	1.2%
Jonathan W. Painter	82,233	*
William A. Rainville	774,700	5.4%
Edward J. Sindoni	112,749	*
All directors and current executive officers as a group (13 persons)	1,397,024	9.4%

* Less than 1%

- (1) Except as reflected in the footnotes to this table, shares beneficially owned consist of shares owned by the person and by that person for the benefit of minor children.
- (2) Shares beneficially owned by Dr. Albertine, Dr. Allen, Mr. McKone, Mr. O'Brien, Mr. Painter, Mr. Rainville, Mr. Sindoni and all directors and current executive officers as a group include 8,334, 16,667, 25,000, 150,000, 69,267, 702,614, 96,667 and 1,225,766 shares, respectively, that the person or group had the right to acquire within 60 days of March 1, 2006, through the exercise of stock options. Shares beneficially owned by Mr. McKone and all directors and current executive officers as a group include 2,568 shares allocated to Mr. McKone's account maintained under our deferred compensation plan for directors, which was discontinued in 2002. Shares beneficially owned by Mr. Painter include three shares held in a custodial account for the benefit of a minor child.
- (3) The address of The PNC Financial Services Group, Inc. is One PNC Plaza, 249 Fifth Avenue, Pittsburgh, Pennsylvania 15222. The PNC Financial Services Group, Inc. has filed as the parent holding company of the following subsidiaries: PNC Bancorp, Inc.; PNC Bank, National Association; and BlackRock Advisors, Inc. BlackRock Advisors, Inc. is an investment advisor and the other PNC entities are banks. The address and number of shares of our common stock beneficially owned by The PNC Financial Services Group, Inc. is based on its Schedule 13G filed with the SEC on February 13, 2006, and is as of December 31, 2005.
- (4) The address of Dimensional Fund Advisors Inc. is 1299 Ocean Avenue, 11th Floor, Santa Monica, California 90401. Dimensional Fund Advisors Inc. is a registered investment advisor that furnishes investment advice to four registered investment companies and serves as investment manager to certain other commingled group trusts and separate accounts (the "Dimensional Funds"). Our shares are owned by the Dimensional Funds and Dimensional Fund Advisors Inc. disclaims beneficial ownership of our shares. The address and number of shares of our common stock beneficially owned by Dimensional Fund Advisors Inc. is based on an amendment to its Schedule 13G filed with the SEC on February 6, 2006, and is as of December 31, 2005.

- (5) The address of Wachovia Corporation is One Wachovia Center, Charlotte, North Carolina 28288-0013. Wachovia Corporation has filed as the parent holding company of Wachovia Securities, LLC, Evergreen Investment Management Company, Calibre Advisory Services, Inc. and Wachovia Bank, N.A. Wachovia Securities, LLC, Evergreen Investment Management Company and Calibre Advisory Services, Inc. are investment advisors for mutual funds and/or other clients, which entities are the beneficial owners of our shares. Wachovia Bank, N.A. holds our shares in a fiduciary capacity for its customers. The address and number of shares of our common stock beneficially owned by Wachovia Corporation is based on an amendment to its Schedule 13G filed with the SEC on February 10, 2006, and is as of December 31, 2005.
- (6) The address of Wellington Management Company, LLP is 75 State Street, Boston, Massachusetts 02109. Wellington Management Company, LLP serves as an investment advisor to its clients, which are the record owners of our shares. The address and number of shares of our common stock beneficially owned by Wellington Management Company, LLP is based on an amendment to its Schedule 13G filed with the SEC on February 14, 2006, and is as of December 31, 2005.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act, requires our directors and executive officers, and beneficial owners of more than 10% of our common stock, to file with the SEC initial reports of ownership and periodic reports of changes in ownership of our securities. Based upon a review of these filings, all Section 16(a) filing requirements applicable to such persons were complied with during 2005 on a timely basis, except as follows. The Form 4 reporting the automatic award of 2,500 shares of restricted stock to each of our non-management directors on April 1, 2005 (Dr. Albertine, Dr. Allen, Mr. McKone and Mr. Joaquim Ribeiro) was filed late by five business days, on April 12, 2005.

EXECUTIVE COMPENSATION

Summary Compensation Table

The following table summarizes compensation information for our chief executive officer and our four other most highly compensated executive officers who received salary and bonus compensation in excess of \$100,000 in the fiscal year ended December 31, 2005. These executive officers are collectively referred to as the named executive officers.

Summary Compensation Table

Name and Principal Position	Fiscal Year	Annual Compensation		Long-Term Compensation Securities Underlying Options	All Other Compensation (1)
		Salary	Bonus		
William A. Rainville Chief Executive Officer	2005	\$ 550,000	\$ 540,000(2)		\$ 7,048
	2004	\$ 448,375	\$ 310,000		\$10,808
	2003	\$ 425,000	\$ 407,500		\$ 9,608
Thomas M. O'Brien Executive Vice President and Chief Financial Officer	2005	\$ 252,000	\$ 120,000		\$ 7,236
	2004	\$ 240,000	\$ 178,000		\$11,646
	2003	\$ 230,000	\$ 180,000		\$ 9,581
Edward J. Sindoni Senior Vice President (3)	2005	\$ 235,000	\$ 120,000		\$ 7,198
	2004	\$ 225,000	\$ 140,000		\$11,807
	2003	\$ 218,000	\$ 140,000		\$ 9,708
Jonathan W. Painter Executive Vice President	2005	\$ 216,500	\$ 100,000		\$ 7,156
	2004	\$ 208,000	\$ 100,000		\$11,990
	2003	\$ 200,000	\$ 130,000		\$ 9,898
Rudolf A. Leerentveld Vice President (4)	2005	\$ 141,058	\$ 300,000	100,000	\$ 4,268

- (1) The amounts disclosed in this column represent employer contributions under our company's and subsidiaries' 401(k) savings or profit sharing plans made on behalf of the named executive officer, unless otherwise noted below.
- (2) Mr. Rainville's bonus for 2005 consists of a \$100,000 bonus paid in May 2005 upon the completion of the acquisition of Kadant Johnson Inc. (then known as The Johnson Corporation) and an annual bonus based on 2005 performance paid in April 2006 of \$440,000.
- (3) Mr. Sindoni was promoted to the position of executive vice president and chief operating officer on March 1, 2006.
- (4) Mr. Leerentveld became an employee of the company on May 11, 2005 and was named a vice president on June 7, 2005. His compensation has been reported for the period commencing on his employment by the company. Mr. Leerentveld entered into an employment agreement with the company on April 7, 2005 in connection with our acquisition of Kadant Johnson Inc. This agreement is described below under the caption "Employment Agreement."

Stock Options Granted During Fiscal Year 2005

The following table presents information concerning individual grants of stock options made during fiscal 2005 to our named executive officers. It has not been our policy in the past to grant stock appreciation rights, and no such rights were granted during fiscal 2005.

Option Grants in Fiscal 2005

Name	Number of Securities Underlying Options Granted (1)	Percent of Total Options Granted to Employees in Fiscal Year	Exercise		Annual Rates of Stock Price Appreciation for	
			Price Per Share	Expiration Date	5%	10%
William A. Rainville						Potential Realizable Value at Assumed
Thomas M. O'Brien						
Edward J. Sindoni						
Jonathan W. Painter						
Rudolf A. Leerentveld	100,000	72%	\$ 19.07	5/11/12	\$ 776,341	\$ 1,809,204

- (1) The vesting and exercise schedule for these options is 1/3 after the first anniversary of the grant date, 2/3 after the second anniversary of the grant date and 100% after the third anniversary of the grant date. The exercise price may be paid in cash or by delivery of already-owned shares, and tax-withholding obligations arising from the exercise may be paid by surrendering shares, subject to certain conditions.
- (2) The potential realizable values stated in this table represent hypothetical gains that could be achieved if the options are exercised at the end of the option term. These gains are based on assumed rates of stock appreciation of 5% and 10% compounded annually from the grant date to the expiration date of the options. The hypothetical gains shown are net of the option exercise price and do not include deductions for taxes or other expenses associated with the exercise. Actual gains, if any, on stock option exercises will depend on the future performance of our shares, the executive's continued employment during the option term and the date the options are exercised. The potential realizable

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values are calculated based on SEC rules and do not represent the estimated growth of our stock price.

Stock Options Exercised During Fiscal 2005 and Fiscal Year-End Option Values

The following table reports certain information regarding stock option exercises during fiscal 2005 and outstanding stock options held at the end of fiscal 2005 by our named executive officers. No stock appreciation rights were exercised or were outstanding during fiscal 2005.

<u>Name</u>	Shares Acquired on Exercise	Values Realized (1)	Number of Securities Underlying Unexercised Options at Fiscal Year- End (Exercisable/ Unexercisable) (2)	Value of Unexercised In-the- Money Options at Fiscal Year-End (Exercisable/ Unexercisable) (3)
William A. Rainville	8,635	\$74,649	702,614/0	\$2,720,569/
Thomas M. O'Brien			150,000/0	\$ 745,000/
Edward J. Sindoni			96,667/0	\$ 454,335/
Jonathan W. Painter			69,267/0	\$ 433,507/
Rudolf A. Leerentveld			0/100,000	/ \$0

(1) The amounts shown in this table represent the difference between the option exercise price and the market price on the date of exercise multiplied by the number of option shares exercised, which is the amount that would have been realized if the shares had been sold immediately upon exercise.

(2) The vesting and exerci