



CERTAIN TAX INFORMATION FOR KADANT SPIN-OFF: DETERMINING YOUR TAX BASIS AND HOLDING PERIOD

Dear Stockholder:

On August 8, 2001, Thermo Electron Corporation ("Thermo") distributed its holdings of the common stock of Kadant, Inc. ("Kadant") to the stockholders of Thermo. As a record holder of shares of Thermo common stock on July 30, 2001, the record date for the distribution, you received a distribution of .0612 shares of Kadant common stock for every share of Thermo common stock held by you. For federal income tax purposes, the Kadant shares distributed to you must be broken into two categories. Approximately 8.047% of the shares distributed were purchased by Thermo within the last five years (the "Taxable Kadant Shares"), and their receipt will generally be treated as a taxable dividend to you in an amount equal to the fair market value of the shares at the time of their distribution. The remaining portion of the Kadant shares were not purchased within the last five years (the "Non-Taxable Kadant Shares"), and their receipt will generally be tax-free to you. No fractional shares of Kadant common stock were issued. Instead, if you would otherwise have received a fractional share, you were paid cash for such fractional share. For federal income tax purposes, if you received cash in lieu of a fractional share, you will be treated as if you received the fractional share and then sold it for the cash amount. You, therefore, must recognize gain or loss on the deemed sale of the fractional share, depending on the basis you are considered to have in the fractional share (as discussed below).

Tax Basis.

Determining the tax basis in your existing shares of Thermo common stock following the distribution and the tax basis in your newly received Kadant shares (both the Taxable Kadant Shares and the Non-Taxable Kadant Shares) is complicated and depends in large part upon the fair market values of the shares of Thermo common stock and the Kadant common stock immediately following the distribution. For federal income tax purposes, there is no prescribed method for determining these fair market values. One method that seems reasonable is to use the average of the opening and closing prices of the shares of the Thermo and Kadant stock on the distribution date. This average price was \$20.41 for Thermo and \$13.43 for Kadant. These are the prices that we will use to report to the IRS the amount of the distribution that will be considered taxable to you. Accordingly, you may wish to use the same average prices for purposes of your tax computations so that your reporting of the tax consequences of the distribution will be consistent with ours.

Your tax basis in the Taxable Kadant Shares that you received (including any fractional share of a Taxable Kadant Share for which you received cash) will equal their fair market value on the date of the distribution. Your tax basis for your existing shares of Thermo common stock and for the Non-Taxable Kadant Shares received by you in the distribution (including any fractional share for which you received cash) must be derived from your tax basis in your shares of Thermo common stock before the distribution. The tax basis in your shares of Thermo common stock before the distribution was generally equal to the cost of the shares, including commissions. If you acquired your shares of Thermo common stock at different times and costs, you will need to make separate basis calculations for each group of shares. Once you have identified your pre-distribution tax basis in your shares of Thermo common stock, you must allocate it between your shares of Thermo common stock and your Non-Taxable Kadant Shares (including any fractional share of a Non-Taxable Kadant Share for which you received cash) based upon their relative fair market values on the date of distribution.

The following example demonstrates how to determine the tax basis of your various shares. Schedule A attached to this letter sets forth more of the detailed computations contained in the example and can be used by you as a worksheet to calculate the basis of your shares in a manner consistent with the example. For purposes of the example, it is assumed that you owned 1,000 shares of Thermo common stock with a tax basis of \$20 per share (\$20,000 total basis) prior to the distribution. As a result, you would have been entitled to receive 61.20 shares of Kadant common stock in the distribution. Of the 61.20 shares, 4.92 shares (8.047%) would be considered to be Taxable Kadant Shares and 56.28 shares would be considered to be Non-Taxable Kadant Shares. In the distribution, you actually received 61 shares of Kadant common stock and cash in lieu of the .2 share to which you would otherwise have been entitled. Using the average of the opening and closing prices of Thermo common stock and the Kadant common stock on the day following the distribution (\$20.41 per share and \$13.43 per share, respectively) as the fair market values of those stocks, you would determine your tax basis in your existing shares of Thermo common stock and in your newly received shares of Kadant common stock as follows:

- The 4.92 Taxable Kadant Shares would have a tax basis of \$13.43 per share for a total basis of \$66.08.
- The \$20,000 original tax basis in the shares of Thermo common stock would then be allocated between the shares of Thermo common stock and the Non-Taxable Kadant Shares based upon their relative fair market values (\$20,410 for Thermo (1,000 x \$20.41) and \$755.84 for the Non-Taxable Kadant Shares (56.28 x \$13.43). Accordingly, \$714 (3.57%) of the total original \$20,000 tax basis in the shares of Thermo common stock would be allocated to the 56.28 Non-Taxable Kadant Shares and \$19,286 (96.43%) would be allocated to the shares of Thermo common stock.
- Assuming that the .2 share of Kadant stock for which you received cash is considered to be comprised of a proportionate amount of Taxable Kadant Shares (8.047%) and Non-Taxable Kadant Shares (91.953%), following the distribution, you would be considered to own (i) 1,000 shares of Thermo stock with an aggregate tax basis of \$19,286, (ii) 56.10 Non-Taxable Kadant Shares (56.28 shares minus 0.18 shares deemed sold for cash) with an aggregate tax basis of \$711.72 and (iii) 4.9 Taxable Kadant Shares (4.92 shares minus 0.02 shares deemed sold for cash) with an aggregate tax basis of \$65.81.

Holding Periods.

The holding period for your Non-Taxable Kadant Shares (including the fractional share interest) should be the same as the holding period for your shares of Thermo common stock (assuming that you held the shares of Thermo common stock as a capital asset). The holding period for your Taxable Kadant Shares will commence on the day following the distribution.

The foregoing discussion treated the Taxable Kadant Shares and the Non-Taxable Kadant Shares as if they were identifiable separate blocks of shares for which separate tax bases and holding periods could be determined. For non-tax purposes, however, all of the Kadant shares that you received in the distribution were received in a single block without any distinction between, or identification of, the Taxable Kadant Shares and the Non-Taxable Kadant Shares. For federal income tax purposes, there is no authority that indicates whether, in such a circumstance, you have to treat each Kadant share you received as in part a Taxable Kadant Share and in part a Non-Taxable Kadant Share (with each part having a different tax basis and holding period) or whether you are free to identify particular shares as Taxable Kadant Shares and the others as Non-Taxable Kadant Shares. Accordingly, you are strongly urged to consult your own tax advisor as to whether (and how) you can identify particular Kadant shares as Taxable Kadant Shares or as Non-Taxable Kadant Shares. The ability to so identify particular shares may be valuable to you if you subsequently sell less than all of your Kadant shares received in the distribution since you would be able to choose which shares to sell based upon their different tax bases and holding periods.

The information in this letter represents our understanding of existing federal income tax laws and regulations and does not constitute tax advice. It does not purport to be complete or to

describe tax consequences that may apply to particular categories of stockholders. Each stockholder should consult his or her tax advisor as to the particular consequences of the distribution under U.S. federal, state and local, and foreign tax laws, including, in particular, tax basis allocation rules, and the effect of possible changes to tax laws that may affect the description provided above.