NORTH BAY RESOURCES INC
Form 8-K
January 05, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 OR 15(d) of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): December 29, 2011

NORTH BAY RESOURCES INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation)

000-54213
(Commission File Number)

83-0402389
(IRS Employer Identification No.)

2120 Bethel Road
Lansdale, Pennsylvania 19446
(Address of principal executive offices and Zip Code)

(215) 661-1100
Registrant's telephone number, including area code

N/A
(Former name or former address, if changed since last report)

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

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

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

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

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

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995

Information included in this Form 8-K may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). This information may involve known and unknown risks, uncertainties and other factors which may cause the Company’s actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by any forward-looking statements. Forward-looking statements, which involve assumptions and describe the Company’s future plans, strategies and expectations, are generally identifiable by use of the words “may,” “will,” “should,” “expect,” “anticipat “estimate,” “believe,” “intend” or “project” or the negative of these words or other variations on these words or comparabl terminology. These forward-looking statements are based on assumptions that may be incorrect, and there can be no assurance that any projections included in these forward-looking statements will come to pass. The Company’s actual results could differ materially from those expressed or implied by the forward-looking statements as a result of various factors. Except as required by applicable laws, the Company undertakes no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

Item 1.01 Entry Into a Material Definitive Agreement
Item 2.03 Creation of a Direct Financial Obligation
Item 3.02 Unregistered Sales of Equity Securities

Effective December 29, 2011, the Registrant entered into an agreement ("the Agreement") with Tangiers Investors LP, ("Tangiers") pursuant to which the Company received $50,000 as a loan from Tangiers. As the Agreement specifies, loan proceeds will only be used towards expenses related to the Ruby Mine Project.

The Agreement is structured as a $25,000 Promissory Note (the “Promissory Note”), and a $25,000 Convertible Promissory Note (the “Convertible Note”).

The Promissory Note has a maturity date of six (6) months from the Effective Date, and an interest rate on the unpaid principal balance equal to 9.9% per year. The Registrant shall make cash payments to Tangiers every two (2) weeks beginning January 1, 2012, at a minimum of $2,500 against the principal and accrued interest until the Promissory Note has been satisfied. The Registrant has further authorized Tangiers to debit this amount directly from any drawdowns made on Registrant’s existing Equity Line of Credit (“ELOC”) with Tangiers. As further consideration, Tangiers shall be entitled to 250,000 5-year warrants to purchase 250,000 shares of our common stock at an exercise price of $0.115 per share.

The Convertible Note is convertible into common stock, in whole or in part, at any time and from time to time before maturity at the option of the holder at a fixed price of $0.08 per share, which was the closing market share price on the Effective Date. The Note has a term of nine (9) months and accrues interest at a rate equal to 9.9% per year.

The Agreement further specifies that there shall be no penalty for prepayment of either the Promissory Note or the Convertible Note.

Concurrent with the execution of the Agreement with Tangiers and effective December 29, 2011, Ruby Development Company (“RDC”) has agreed to reduce the Registrant’s monthly mortgage payments on the Ruby Mine property from $85,000 per month to $10,000 per month until March 31, 2012, or receipt by the Registrant of its expected funding through the federal EB-5 Program, whichever comes first. A full description of the Ruby Mine and the federal EB-5 program as it relates to project funding for the Ruby Mine is disclosed in the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 16, 2011. In consideration of the reduced

payments, RDC shall be entitled to 2,000,000 5-year warrants to purchase 2,000,000 shares of our common stock at an exercise price of $0.09 per share.

The Notes and the warrant issuances referred to above (and the shares of common stock underlying them) are exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended.

The above described executed Promissory Note and Convertible Note is attached hereto and incorporated by reference as Exhibit 10.1, 10.2, and 10.3.

Item 9.01 Financial Statements and Exhibits

(c) Exhibits

10.1 Promissory Note with Tangiers Investors, LP dated December 29, 2011
10.2 Convertible Promissory Note with Tangiers Investors, LP dated December 29, 2011
10.3 Form of Warrants Issued to Tangiers Investors, LP dated December 29, 2011
10.4 Ruby Mortgage Payment Adjustment Authorization Letter dated December 29, 2011

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 hereunto duly authorized.

	NORTH BAY RESOURCES INC. (Registrant)	
Dated: January 5, 2012	By:	/s/ Perry Leopold Perry Leopold Chief Executive Officer

right;font-size:10pt;">Increase
Excluding
Effect of Foreign Currency
Translation

(In thousands)

April 1,
2017

April 2,
2016

Increase

Papermaking Systems Product Lines:

Stock-Preparation

$
41,153

$
38,418

$

2,735

$
3,261

Doctoring, Cleaning, & Filtration

25,350

23,839

1,511

2,113

Fluid-Handling

22,047

21,770

277

463

$
88,550

$
84,027

$
4,523

$
5,837

Revenues from our Stock-Preparation product line in the first quarter of 2017 increased $2.7 million, or 7%, compared to the first quarter of 2016, due to the inclusion of $13.3 million in revenues from the acquisition of PAAL, offset in part by a $0.5 million decrease from the unfavorable effect of foreign currency translation. Excluding the acquisition and the unfavorable effect of foreign currency translation, revenues in our Stock-Preparation product line decreased $10.1 million, or 26%, primarily due to lower bookings of our capital products in mid-2016 resulting from reduced demand at our North American and Chinese operations. Bookings of our Stock-Preparation capital products in China have increased in the fourth quarter of

28

Table of Contents
KADANT INC.

Results of Operations (continued)

2016 and the first quarter of 2017. Revenues from our Doctoring, Cleaning, & Filtration product line in the first quarter of 2017 increased $1.5 million, or 6%, compared to the first quarter of 2016. Excluding an unfavorable effect of foreign currency translation of $0.6 million, revenues from our Doctoring, Cleaning & Filtration product line increased $2.1 million, or 9%, compared to the first quarter of 2016, due to increased demand for our products at our European operations. Revenues from our Fluid-Handling product line in the first quarter of 2017 increased $0.3 million, or 1%, compared to the first quarter of 2016, primarily due to increased demand for our parts and consumables products, offset in part by decreased demand for our capital products principally at our European and North American operations.

Gross Profit Margin

Gross margins for the first quarters of 2017 and 2016 are as follows:

	Three Months Ended	
	April 1, 2017	April 2, 2016
Gross Profit Margin:		
Papermaking Systems	47.9%	46.6 %
Wood Processing Systems	42.1	33.0
Fiber-based Products	55.0	51.6
	47.6%	45.6 %

Papermaking Systems Segment. The gross profit margin in our Papermaking Systems segment increased to 47.9% in the first quarter of 2017 from 46.6% in the first quarter of 2016 due to higher gross profit margins on our parts and consumables products and an increase in the proportion of higher-margin parts and consumables revenues. These increases were partially offset by the inclusion of lower gross profit margins at PAAL.

Wood Processing Systems Segment. The gross profit margin in our Wood Processing Systems segment increased to 42.1% in the first quarter of 2017 from 33.0% in the first quarter of 2016 due to higher gross profit margins on our parts and consumables products and a change in product mix to an increased proportion of higher-margin parts and consumables revenues compared to the first quarter of 2016.

Fiber-based Products. The gross profit margin in our Fiber-based Products business increased to 55.0% in the first quarter of 2017 from 51.6% in the first quarter of 2016 due to higher margins on our biodegradable granular products resulting from increased manufacturing efficiency related to higher production volume.

Operating Expenses

Selling, general, and administrative (SG&A) expenses as a percentage of revenues were 34% in both the first quarters of 2017 and 2016. SG&A expenses increased $2.3 million, or 7%, to $34.8 million in the first quarter of 2017 from $32.5 million in the first quarter of 2016, primarily due to the inclusion of $3.1 million of SG&A expense from PAAL, which was offset in part by a decrease of $0.4 million from the favorable effect of foreign currency translation.

Total stock-based compensation expense was $1.3 million in both the first quarters of 2017 and 2016 and is included in SG&A expenses in the accompanying condensed consolidated statement of income.

Research and development (R&D) expenses were $2.1 million and $1.7 million in the first quarters of 2017 and 2016, respectively, and represented 2% of revenues in both periods.

Other Income

Other income in the first quarter of 2016 represents a pre-tax gain of $0.3 million related to the sale of real estate in Sweden for cash proceeds of $0.4 million.

Interest Expense

Interest expense was $0.3 million in both the first quarters of 2017 and 2016.

29

Table of Contents
KADANT INC.

Results of Operations (continued)

Provision for Income Taxes
Our provision for income taxes was $2.7 million and $2.9 million in the first quarters of 2017 and 2016, respectively, and represented 23% and 29% of pre-tax income. The effective tax rate of 23% in the first quarter of 2017 was lower than our statutory tax rate primarily due to the distribution of our worldwide earnings and the net excess income tax benefits from stock-based compensation arrangements, offset in part by an increase in tax related to non-deductible expenses. The effective tax rate of 29% in the first quarter of 2016 was lower than our statutory tax rate primarily due to the distribution of our worldwide earnings and the net excess income tax benefits from stock-based compensation arrangements. These items were offset in part by an increase in tax related to non-deductible expenses and state taxes.

Net Income
Net income increased $2.1 million to $9.1 million in the first quarter of 2017 from $7.0 million in the first quarter of 2016, primarily due to an increase in operating income (see Revenues, Gross Margin, and Operating Expenses discussed above).

Recent Accounting Pronouncements
Revenue from Contracts with Customers (Topic 606), Section A-Summary and Amendments That Create Revenue from Contracts with Customers (Topic 606) and Other Assets and Deferred Costs-Contracts with Customers (Subtopic 340-40). In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The new guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. The ASU will replace most existing revenue recognition guidance in GAAP when it becomes effective. In March 2016, the FASB issued ASU No. 2016-08, which further clarifies the guidance on the principal versus agent considerations within ASU No. 2014-09. In April 2016, the FASB issued ASU No. 2016-10 to expand the guidance on identifying performance obligations and licensing within ASU 2014-09. In May 2016, the FASB issued ASU No. 2016-11, which rescinds certain previously-issued guidance, including, among other items, guidance relating to accounting for shipping and handling fees and freight services effective upon adoption of ASU No. 2014-09. Also in May 2016, the FASB issued ASU No. 2016-12, which narrowly amended the revenue recognition guidance regarding collectability, noncash consideration, presentation of sales tax and transition. In December 2016, the FASB issued ASU No. 2016-20, which clarifies narrow aspects of Topic 606 and corrects unintended application of the guidance. These new ASUs are effective for us beginning in fiscal 2018. Early adoption is permitted in fiscal 2017. We are continuing to assess the potential effects of these ASUs on our condensed consolidated financial statements, business processes, systems and controls. We are analyzing our current contracts and comparing our current accounting policies and practices pertaining to revenue recognition to those required under the new ASUs to identify potential differences. Based on procedures performed to date, we have identified certain contracts that would likely be impacted by applying the new revenue standard. These include contracts that are currently accounted for under the completed-contract method. Under the current guidance, we recognize revenue under the completed-contract method when the contract is substantially complete, the product is delivered and, if applicable, customer acceptance criteria is met. However, under the new guidance, revenue recognized related to such contracts will be accelerated if the “over time” criteria are met. We are still in the process of evaluating these contracts and other types of contracts and quantifying the expected impact that the standard will have on our financial statements and related disclosures. While the assessment process is ongoing, we currently anticipate adopting these ASUs using the modified retrospective transition approach. Under this approach, this guidance would apply to all new contracts initiated in fiscal 2018. For existing contracts that have remaining obligations as of the beginning of fiscal 2018, any difference between the recognition criteria in these ASUs and our current revenue

recognition practices would be recognized using a cumulative effect adjustment to the opening balance of retained earnings. We are also in the process of developing and implementing appropriate changes to our business processes, systems and controls to support the recognition criteria and disclosure requirements of these ASUs.

Inventory (Topic 330), Simplifying the Measurement of Inventory. In July 2015, the FASB issued ASU No. 2015-11, which requires that an entity measure inventory within the scope of this ASU at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Substantial and unusual losses that result from subsequent measurement of inventory should be disclosed in the financial statements. We adopted this ASU at the beginning of fiscal 2017. Adoption of this ASU did not have a material effect on our condensed consolidated financial statements.

Results of Operations (continued)

Leases (Topic 842). In February 2016, the FASB issued ASU No. 2016-02, which requires a lessee to recognize a right-of-use asset and a lease liability for operating leases, initially measured at the present value of the future lease payments,
in our balance sheet. This ASU also requires a lessee to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term, generally on a straight-line basis. This new guidance is effective for us in fiscal 2019. Early adoption is permitted. As part of the implementation of this new standard, we are in the process of reviewing current accounting policies and assessing the practical expedients allowed under this new guidance. We expect that most of our operating lease commitments will be subject to the new standard and recognized as operating lease liabilities and right-of-use assets upon adoption, which is required using the modified retrospective transition method. We are currently evaluating the other effects that the adoption of this ASU will have on our condensed consolidated financial statements.

Financial Instruments-Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments. In June 2016, the FASB issued ASU No. 2016-13, which significantly changes the way entities recognize impairment of many financial assets by requiring immediate recognition of estimated credit losses expected to occur over their remaining lives. This new guidance is effective for us in fiscal 2020. Early adoption is permitted beginning in fiscal 2019. We are currently evaluating the effects that the adoption of this ASU will have on our condensed consolidated financial statements.

Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments. In August 2016, the FASB issued ASU No. 2016-15, which simplifies the diversity in practice related to the presentation and classification of certain cash receipts and cash payments in the statement of cash flows under Topic 230. This ASU addresses the following eight specific cash flow issues: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance; distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. This new guidance is effective for us in fiscal 2018. Early adoption is permitted. We do not believe that adoption of this ASU will have a material effect on our condensed consolidated financial statements.

Income Taxes (Topic 740), Intra-Entity Transfers of Assets Other Than Inventory. In October 2016, the FASB issued ASU No. 2016-16, which requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs and eliminates the exception for an intra-entity transfer of an asset other than inventory. This new guidance is effective for us in fiscal 2018 with adoption required on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. Early adoption is permitted. We are currently evaluating the effect that the adoption of this ASU will have on our condensed consolidated financial statements.

Statement of Cash Flows (Topic 230), Restricted Cash. In November 2016, the FASB issued ASU No. 2016-18, which requires inclusion of restricted cash and restricted cash equivalents within cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This new guidance is effective for us in fiscal 2018. Early adoption is permitted. As this ASU is presentation-related only, adoption of this ASU will not have a material impact on our condensed consolidated financial statements.

Business Combinations (Topic 805), Clarifying the Definition of a Business. In January 2017, the FASB issued ASU No. 2017-01, which clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The revised definition of a business under this ASU will reduce the number of transactions that are accounted for as business combinations. This new guidance is effective on a prospective basis for us in fiscal 2018. Early adoption is allowed for certain transactions. We are currently evaluating the effects that the adoption of this ASU will have on our condensed consolidated financial statements.

Intangibles - Goodwill and Other (Topic 350), Simplifying the Test for Goodwill Impairment. In January 2017, the FASB issued ASU No. 2017-04, which eliminates Step 2 in goodwill impairment testing, which requires that goodwill impairment losses be measured as the difference between the implied value of a reporting unit’s goodwill and its carrying amount. This ASU will reduce the cost and complexity of impairment testing by requiring goodwill impairment losses to be measured as the excess of the reporting unit’s carrying amount, including goodwill and related goodwill tax effects, over its fair value. This new guidance is effective on a prospective basis for us in fiscal 2020. Early adoption is permitted. We do not believe that adoption of this ASU will have a material effect on our condensed consolidated financial statements.

Table of Contents
KADANT INC.

Results of Operations (continued)

Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post-retirement Benefit Cost. In March 2017, the FASB issued ASU No. 2017-07, which requires employers to include only the service cost component of net periodic pension cost and net periodic post-retirement benefit cost in operating expenses in the same income statement line item as the related employees' compensation costs. The other components of net benefit cost, including interest costs, amortization of prior service costs and settlement and curtailment effects, are to be included in non-operating expenses. The ASU also stipulates that only the service cost component of net benefit cost is eligible for capitalization. This new guidance is effective on a retrospective basis for us in fiscal 2018. Early adoption is permitted. We are currently evaluating the effects that adoption of this ASU will have on our condensed consolidated financial statements.

Liquidity and Capital Resources

Consolidated working capital was $131.5 million at April 1, 2017, compared with $118.4 million at December 31, 2016. Included in working capital were cash and cash equivalents of $71.5 million at both April 1, 2017 and December 31, 2016. At April 1, 2017, $67.6 million of cash and cash equivalents was held by our foreign subsidiaries.

First Three Months of 2017
Our operating activities provided cash of $1.7 million in the first quarter of 2017. Working capital used cash of $12.2 million in the first quarter of 2017, including increases of $6.2 million in accounts receivable and unbilled costs and fees primarily in our Stock-Preparation product line and $4.0 million in inventory primarily from purchases related to the expected shipment of Stock-Preparation capital orders later in 2017. To a lesser extent, cash of $1.9 million was used to fund increases in other current assets largely related to prepayments for raw material and equipment and an increase in refundable income taxes. In addition, we used cash of $1.0 million for other current liabilities primarily related to the payment of incentive compensation in the first quarter of 2017.

Our investing activities used cash of $1.9 million in the first quarter of 2017, primarily related to $1.7 million of purchases of property, plant, and equipment.

Our financing activities used cash of $1.1 million in the first quarter of 2017. We received cash proceeds of $8.0 million from borrowings under our unsecured revolving credit facility (2017 Credit Agreement), which were more than offset by $4.6 million used for principal payments on our outstanding debt obligations, $2.2 million used for tax withholding payments related to stock-based compensation, and $2.1 million used for cash dividends paid to stockholders.

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

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

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

Liquidity and Capital Resources (continued)

Additional Liquidity and Capital Resources
On May 18, 2016, our board of directors approved the repurchase by us of up to $20 million of our equity securities during the period from May 18, 2016 to May 18, 2017. We did not purchase any shares of our common stock under this authorization in the first quarter of 2017.

We paid cash dividends of $2.1 million and $1.8 million in the first quarters of 2017 and 2016, respectively. On March 8, 2017, we declared a quarterly cash dividend of $0.21 per outstanding share of our common stock, which will be paid on May 11, 2017. Future declarations of dividends are subject to our board of directors' approval and may be adjusted as business needs or market conditions change. The declaration of cash dividends is subject to our compliance with the consolidated leverage ratio contained in our 2017 Credit Agreement.

It is our intent to reinvest indefinitely the earnings of our international subsidiaries in order to support the current and future capital needs of their operations. We do not anticipate the need to repatriate funds to the United States to satisfy domestic liquidity needs arising in the ordinary course of business. Through April 1, 2017, we have not provided for U.S. income taxes on approximately $193.1 million of unremitted foreign earnings. The U.S. tax cost has not been determined due to the fact that it is not practicable to estimate at this time. The related foreign tax withholding, which would be required if we were to remit the foreign earnings to the U.S., would be approximately $4.1 million.

Although we currently have no material commitments for capital expenditures, we plan to make expenditures of approximately $17 to $18 million during the remainder of 2017 for property, plant, and equipment, which includes approximately $12 million related to a facility project. We expect to incur an additional $4 million of capital expenditures for this facility project in 2018. We anticipate funding this project through borrowings available under our 2017 Credit Agreement.

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

Revolving Credit Facility
On March 1, 2017, we entered into the 2017 Credit Agreement, which became effective as of March 2, 2017. The 2017 Credit Agreement is a five-year unsecured revolving credit facility in the aggregate principal amount of up to $200 million. The 2017 Credit Agreement also includes an uncommitted unsecured incremental borrowing facility of up to an additional $100 million. The principal on any borrowings made under the 2017 Credit Agreement is due on March 1, 2022. Interest on any loans outstanding under the 2017 Credit Agreement accrues and generally is payable quarterly in arrears at one of the following rates selected by us: (i) the Base Rate, calculated as the highest of (a) the federal funds rate plus 0.50%, (b) the prime rate as published by Citizens Bank, and (c) the thirty-day London Inter-Bank Offered Rate (LIBOR) rate, as defined, plus 0.50%; or (ii) the LIBOR rate (with a zero percent floor), as defined, plus an applicable margin of 1% to 2%. The applicable margin is determined based upon the ratio of our total debt, net of certain cash, as defined, to earnings before interest, taxes, depreciation, and amortization (EBITDA), as defined in the 2017 Credit Agreement. For this purpose, total debt net of certain cash is defined as total debt less the sum of (i) unrestricted U.S. cash, and (ii) 65% of unrestricted cash outside of the United States, but no more than an aggregate amount of $30 million. Contemporaneously with the execution of the 2017 Credit Agreement, we borrowed $42.0 million and 26.3 million euros under the 2017 Credit Agreement and applied the proceeds to pay off the

previous credit facility.

As of April 1, 2017, the outstanding balance under the 2017 Credit Agreement was $65.6 million, of which $26.6 million was a euro-denominated borrowing used to fund the PAAL acquisition, which occurred in April 2016. We had $135.0 million of borrowing capacity available under the committed portion of the 2017 Credit Agreement.

33

Liquidity and Capital Resources (continued)

Our obligations under the 2017 Credit Agreement may be accelerated upon the occurrence of an event of default under the 2017 Credit Agreement, which includes customary events of default including without limitation payment defaults, defaults in the performance of affirmative and negative covenants, the inaccuracy of representations or warranties, bankruptcy- and insolvency-related defaults, defaults relating to such matters as the Employment Retirement Income Security Act (ERISA), unsatisfied judgments, the failure to pay certain indebtedness, and a change of control default. In addition, the 2017 Credit Agreement contains negative covenants applicable to us, including financial covenants requiring us to comply with a maximum consolidated leverage ratio of 3.5 to 1, a minimum consolidated interest coverage ratio of 3 to 1, and restrictions on liens, indebtedness, fundamental changes, dispositions of property, making certain restricted payments (including dividends and stock repurchases), investments, transactions with affiliates, sale and leaseback transactions, swap agreements, changing our fiscal year, arrangements affecting subsidiary distributions, entering into new lines of business, and certain actions related to the discontinued operation. As of April 1, 2017, we were in compliance with these covenants.

Loans under the 2017 Credit Agreement are guaranteed by certain of our domestic subsidiaries pursuant to an Amended and Restated Guarantee Agreement, dated as of March 1, 2017. In addition, one of our foreign subsidiaries entered into a Guarantee Agreement limited to certain obligations of two foreign subsidiary borrowers pursuant to a Guarantee Agreement, dated as of March 1, 2017.

Obligations Under Capital Lease
In connection with the acquisition of PAAL, we assumed a sale-leaseback financing arrangement for PAAL's facility in Germany. Under this arrangement, the quarterly lease payment includes principal and interest based on an interest rate which is reset, from time to time, to prevailing short-term borrowing rates in Germany. The interest rate at April 1, 2017 was 1.70%. The lease arrangement includes a net fixed price purchase option of $1.4 million at the end of the lease term in 2022. At April 1, 2017, $4.2 million was outstanding under this capital lease obligation.

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

As of April 1, 2017, the 2015 Swap Agreement had an unrealized gain of $0.1 million. We believe that any credit risk associated with the swap agreement is remote based on our financial position and the creditworthiness of the financial institution that issued the 2015 Swap Agreement.

The counterparty to the 2015 Swap Agreement could demand an early termination of the 2015 Swap Agreement if we are in default under the 2017 Credit Agreement, or any agreement that amends or replaces the 2017 Credit Agreement in which the counterparty is a member, and we are unable to cure the default. An event of default under the 2017 Credit Agreement includes customary events of default and failure to comply with financial covenants, including a maximum consolidated leverage ratio of 3.5 to 1 and a minimum consolidated interest coverage ratio of 3 to 1. The unrealized gain of $0.1 million associated with the 2015 Swap Agreement as of April 1, 2017 represents the estimated amount that we would receive from the counterparty in the event of an early termination.

Item 3 – Quantitative and Qualitative Disclosures About Market Risk

Our exposure to market risk from changes in interest rates and foreign currency exchange rates has not changed materially from our exposure at fiscal year-end 2016 as disclosed in Item 7A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, filed with the SEC.

34

Table of Contents

Item 4 – Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of April 1, 2017. The term "disclosure controls and procedures," as defined in Securities Exchange Act Rules 13a-15(e) and 15d-15(e), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by the company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based upon the evaluation of our disclosure controls and procedures as of April 1, 2017, our Chief Executive Officer and Chief Financial Officer concluded that as of April 1, 2017, our disclosure controls and procedures were effective at the reasonable assurance level.

(b) Changes in Internal Control over Financial Reporting

There have not been any changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended) during the fiscal quarter ended April 1, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1A – Risk Factors

There have been no material changes from the risk factors disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, filed with the SEC.

Item 6 – Exhibits
See Exhibit Index on the page immediately preceding the exhibits.

Table of Contents

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized as of the 10th day of May, 2017.

KADANT INC.

/s/ Michael J. McKenney
Michael J. McKenney
Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

Table of Contents
KADANT INC.

EXHIBIT INDEX

Exhibit Number	Description of Exhibit
31.1	Certification of the Principal Executive Officer of the Registrant Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.
31.2	Certification of the Principal Financial Officer of the Registrant Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.
32	Certification of the Chief Executive Officer and the Chief Financial Officer of the Registrant Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.*
101.SCH	XBRL Taxonomy Extension Schema Document.*
101.CAL	XBRL Taxonomy Calculation Linkbase Document.*
101.LAB	XBRL Taxonomy Label Linkbase Document.*
101.PRE	XBRL Taxonomy Presentation Linkbase Document.*
101.DEF	XBRL Taxonomy Definition Linkbase Document.*

* Submitted electronically herewith.

Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Balance Sheet at April 1, 2017 and December 31, 2016, (ii) Condensed Consolidated Statement of Income for the three months ended April 1, 2017 and April 2, 2016, (iii) Condensed Consolidated Statement of Comprehensive Income for the three months ended April 1, 2017 and April 2, 2016, (iv) Condensed Consolidated Statement of Cash Flows for the three months ended April 1, 2017 and April 2, 2016, (v) Condensed Consolidated Statement of Stockholders' Equity for the three months ended April 1, 2017 and April 2, 2016, and (vi) Notes to Condensed Consolidated Financial Statements.