SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

(mark one)

[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended January 1, 2000

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission file number 1-11406

THERMO FIBERTEK INC.
(Exact name of Registrant as specified in its charter)

Delaware	52-1762325
(State or other jurisdiction of incorporation or organization)	(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) 622-1000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $.01 par value	American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

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 the filing requirements for at least the past 90 days. Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference into Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

The aggregate market value of the voting stock held by nonaffiliates of the Registrant as of January 28, 2000, was approximately $36,381,000.

As of January 28, 2000, the Registrant had 61,233,535 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Annual Report to Shareholders for the year ended January 1, 2000, are incorporated by reference into Parts I and II.

Portions of the Registrant's definitive Proxy Statement for the Annual Meeting of Shareholders to be held on May 18, 2000, are incorporated by reference into Part III.

PART I

Item 1. Business

(a) General Development of Business

Thermo Fibertek Inc. (the Company or the Registrant), through its Pulp and Papermaking Equipment and Systems segment, designs and manufactures stock-preparation equipment, accessories, and water-management systems for the paper and paper recycling industries. The Company's principal products include custom-engineered systems and equipment for the preparation of wastepaper for conversion into recycled paper; accessory equipment and related consumables important to the efficient operation of papermaking machines; and water-management systems essential for draining, purifying, and recycling process water. The Company is a leading equipment manufacturer for the worldwide papermaking and paper recycling industries. The Company's products and systems can be found in the majority of the world's pulp and paper mills. In addition, the Company's Thermo Fibergen Inc. subsidiary, which represents the Water- and Fiber-recovery Services and Products segment, owns and operates a plant that helps the host mill improve product quality, reduce costs, and close the loop in its water and solids systems on a long-term contract basis. The plant recovers and returns to the mill long cellulose fiber and clarified water to be used in papermaking. This segment intends to design, build, own, and operate additional plants. Thermo Fibergen also employs patented technology to produce biodegradable absorbing granules from papermaking byproducts. These granules are used as agricultural carriers, oil and grease absorbents, cat box fillers, and animal bedding. In addition, through its majority-owned NEXT Fiber Products Inc. subsidiary, Thermo Fibergen plans to develop, produce, and market fiber-based composites, primarily for the building industry. NEXT Fiber Products is currently constructing a facility in Green Bay, Wisconsin, to manufacture fiber-based composites products.

The Company's predecessors have been in operation for more than 100 years, and the Company has a large, stable customer base that includes most papermakers worldwide. The Company seeks to expand its business through the introduction of new products and technologies to these customers. The Company currently manufactures its products in several countries in Europe and North America, and licenses certain of its products for manufacture in South America and the Pacific Rim.

In February 1999, Thermo Fibertek sold its Thermo Wisconsin Inc. subsidiary for $13.6 million in cash. Thermo Wisconsin manufactures and markets dryers and pollution-control equipment.

In May 1999, the Pulp and Papermaking Equipment and Systems segment acquired the outstanding stock of Arcline Products, a manufacturer of shower oscillation systems, for $2.7 million in cash and $2.0 million payable in equal annual installments over five years.

In September 1996, the Company's Thermo Fibergen subsidiary sold 4,715,000 units, each unit consisting of one share of Thermo Fibergen common stock and one redemption right, in an initial public offering at $12.75 per unit for net proceeds of $55.8 million. The common stock and redemption rights subsequently began trading separately. Holders of a redemption right have the option to require Thermo Fibergen to redeem one share of Thermo Fibergen common stock at $12.75 per share in September 2000 or September 2001. A redemption right may only be exercised if the holder owns a share of Thermo Fibergen common stock. The redemption rights are guaranteed, on a subordinated basis, by Thermo Electron Corporation. The Company has agreed to reimburse Thermo Electron in the event Thermo Electron is required to make a payment under the guarantee.

As of January 1, 2000, the Company owned 10,419,350 shares of Thermo Fibergen common stock, representing 74% of such outstanding common stock, and Thermo Electron owned 15,750 shares of Thermo Fibergen common stock, representing 0.1% of such outstanding common stock.

The Company is a majority-owned subsidiary of Thermo Electron. As of January 1, 2000, Thermo Electron owned 55,773,057 shares of the Company's common stock, representing 91% of such outstanding common stock. On January 31, 2000, Thermo Electron announced that, as part of a major reorganization plan, it plans to spin off its equity

interest in the Company as a dividend to Thermo Electron shareholders. The distribution is subject to receipt of a favorable ruling from the Internal Revenue Service regarding the tax treatment of the spin off and other customary conditions including negotiation of a distribution agreement between Thermo Electron and the Company pertaining to such matters as transition services, indemnification for certain joint liabilities, and allocation of obligations relating to options in the Company's common stock granted by Thermo Electron to its employees. If these conditions are met, the Company expects the transaction to occur in late 2000 or in early 2001.

Thermo Electron develops, manufactures, and sells measurement and detection instruments used in virtually every industry to monitor, collect, and analyze data that provide knowledge for the user. For example, Thermo Electron's powerful analysis technologies help researchers sift through data to unlock the mysteries of DNA or develop new drugs; allow manufacturers to fabricate ever-smaller components required to carry greater amounts of information, faster; or monitor and control industrial processes on-line to ensure that critical quality standards are met efficiently. During 1999*, Thermo Electron purchased 88,000 shares of the Company's common stock in the open market at a total cost of $0.7 million.

Forward-looking Statements

Forward-looking statements, within the meaning of Section 21E of the Securities Exchange Act of 1934, are made throughout this Annual Report on Form 10-K. 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 the results of the Company to differ materially from those indicated by such forward-looking statements, including those detailed under the heading "Forward-looking Statements" in the Registrant's 1999 Annual Report to Shareholders, which statements are incorporated herein by reference.

(b) Financial Information About Segments

Financial information concerning the Company's segments is summarized in Note 13 to Consolidated Financial Statements in the Registrant's 1999 Annual Report to Shareholders, which information is incorporated herein by reference.

(c) Description of Business

(i) Principal Products and Services

The Company organizes and manages its business by individual functional operating entity. The Company operates in two segments: Pulp and Papermaking Equipment and Systems and Water- and Fiber-recovery Services and Products. Prior to the February 1999 sale of Thermo Wisconsin, the Company also operated in the Dryers and Pollution-control Equipment segment. In classifying operational entities into a particular segment, the Company aggregated businesses with similar economic characteristics, products and services, production processes, customers, and methods of distribution.

----

* References to 1999, 1998, and 1997 herein are for the fiscal years ended January 1, 2000, January 2, 1999, and January 3, 1998, respectively.

Pulp and Papermaking Equipment and Systems

Stock-preparation Equipment

The Company develops, designs, and manufactures custom-engineered systems that remove debris, impurities, and ink from wastepaper, and process it into a fiber mix used to produce either white or brown grades of recycled paper. The Company offers products relating to key aspects of the recycling process. Some of the systems include:

Pulping and Trash Removal Systems, including specialized high- and low-consistency pulpers that blend wastepaper with water and certain chemicals to form pulp with minimal contaminant breakdown, thus increasing the efficiency of debris removal; and detrashing equipment.

Screening Systems, including course screens to remove metals and sand from the pulp mixture, as well as fine screens to remove microscopic particles such as glue and plastic.

Cleaning Systems, including forward cleaners to remove heavyweight contaminants such as metal and sand and reverse cleaners for the removal of lightweight contaminants such as glue and plastic.

De-inking Systems, including the patented MAC CELL(R), which uses the latest generation of Autoclean injectors to produce small air bubbles in the bottom of the pulp slurry. The ink bonds to the air bubbles and rises to the surface, where it is removed through a unique propellant system. The efficiency of this unit and the reduced floor space required for equivalent ink removal make the MAC CELL one of the most critical components within a de-inking system.

Reject-handling and Water-treatment Systems, including gravity-type strainers and in-line filtration designed to recapture "good" fiber rejected with debris in the primary process line, as well as compactors and sand separators.

In addition, the Company designs, develops, and manufactures products for the virgin pulping process, including:

Chemi-Washer(R), a horizontal belt washer used in the virgin pulping process. The Chemi-Washer consumes less energy than other commercial washing systems and significantly decreases the amount of water used and effluent produced.

Evaporators, Recausticizing, and Condensate-treatment systems, which are used during pulping to concentrate and recycle process chemicals and to remove condensate gases.

Revenues from the Company's stock-preparation equipment product line were $98.9 million, $107.5 million, and $88.8 million in 1999, 1998, and 1997, respectively.

Accessories

The Company designs, develops, and manufactures a wide range of accessories that continuously clean the rolls of a papermaking machine, remove the sheet (web) from the roll, automatically cut the web during sheet breaks, and remove curl from the sheet. These functions are critical for paper manufacturers because they help manufacturers avoid potential catastrophic damage to the papermaking equipment, while also reducing expensive machine downtime and improving paper quality. Accessories include:

Doctors and Related Equipment, which shed the sheet from the roll during sheet breaks and startups and keep rolls clean by removing stock accumulations, water rings, fuzz, pitch, and filler buildup.

Profiling Systems, which help ensure a uniform gloss on the web and control moisture and curl within the sheet.

Revenues from the Company's accessories product line were $74.8 million, $77.8 million, and $83.0 million in 1999, 1998, and 1997, respectively.

Water-management

The Company designs, develops, and manufactures equipment used to drain water from the pulp slurry, form the sheet web, and prepare the process water for reuse. These water-management systems include:

Formation Tables, which consist of free-draining elements and vacuum-augmented elements to control the amount of water removed from the pulp slurry to form the paper web.

Showers and Felt-conditioning Systems, which are used to clean and condition the fabrics and felts, which in turn are used to transport the paper web through various stages of the papermaking machine.

Water-filtration Systems, which consist of pressure, gravity, and vacuum-assisted filters and strainers used to remove extraneous contaminants from the process water before reuse and to recover reusable fiber for recycling back into the pulp slurry.

Revenues from the Company's water-management product line were $42.6 million, $36.9 million, and $44.1 million in 1999, 1998, and 1997, respectively.

Water- and Fiber-recovery Services and Products

The Company, through its Thermo Fibergen subsidiary, designs, builds, owns, and operates plants to help pulp and paper mills improve product quality, reduce costs, and close the loop in their water and solids systems on a long-term contract basis. The Company currently owns and operates one such plant in South Carolina, which it began operating in July 1998 under a ten-year contract. The Company's facility is designed to operate 24 hours a day, seven days a week. The paper mill pumps its used process water directly into the Company's system. The facility recovers and returns long fiber to the mill while removing short fiber and minerals, and clarifies water that is recycled for reuse in the papermaking process. The paper mill pays the Company a monthly fee for these services.

In addition, Thermo Fibergen employs patented technology to produce biodegradable absorbing granules from papermaking byproducts. These granules are used as agricultural carriers, oil and grease absorbents, cat box fillers, and horse bedding. The agricultural carriers are used to deliver agricultural chemicals for professional turf, home lawn and garden, agricultural row-crop, and mosquito-control applications.

Through its majority-owned NEXT Fiber Products Inc. subsidiary, Thermo Fibergen plans to develop, produce, and market fiber-based composites, primarily for the building industry. Thermo Fibergen is currently finalizing development of the composites material and expects to complete construction of and begin operating the composites manufacturing facility, located in Green Bay, Wisconsin, during 2000.

Dryers and Pollution-control Equipment

The Company, through its Thermo Wisconsin subsidiary, manufactured and marketed dryers and pollution-control equipment for the printing, papermaking, and converting industries. The Company's dryers transfer heat efficiently from the dryer to the paper web resulting in significant energy savings and improved paper and printing quality. The Company's thermal incinerators reduce volatile organic compounds (VOCs) that are produced when solvents contained in the printed or coated material evaporate. In February 1999, Thermo Fibertek sold this business.

(ii) and (xi) New Products; Research and Development

The Company believes that it has a reputation as a technological innovator in the market niches it serves, and that rapid technological obsolescence is not characteristic of its business. The Company, which maintains active programs for the development of new products using both new and existing technologies, has technology centers in Europe and the U.S. dedicated to specific research projects and markets.

For recycling equipment, the Company maintains a stock-preparation pilot laboratory adjacent to the manufacturing facility at its E. & M. Lamort, S.A. (Lamort) subsidiary and one at Thermo Black Clawson's Middletown, Ohio, facility, both of which contain all equipment necessary to replicate a commercial stock-preparation system. A customer's wastepaper can be tested to determine the exact system configuration that would be recommended for its future facility. The testing laboratories are also used to evaluate prototype equipment, enabling research teams to quickly and thoroughly evaluate new designs. In addition, the Company works closely with its customers in the development of products, typically field testing new products on the customers' papermaking machines. In the U.S., one facility houses an operation for continued development of accessory products, while another is devoted to development of new water-management products.

Thermo Fibergen's mobile pilot plant is used to demonstrate its fiber-recovery and water-clarification process, and to test the effluent streams of mills in the United States and Canada. During 1999, Thermo Fibergen continued its research and development efforts relating to these systems. In addition, Thermo Fibergen's GranTek subsidiary's processing center in Green Bay, Wisconsin, contains a pilot plant that is used to develop cellulose-based products and processes that are employed at its main facility. Through its majority-owned NEXT Fiber Products subsidiary, Thermo Fibergen also conducts research and development in fiber-based composites. NEXT Fiber Products occupies a 14,000-square-foot research and development facility in Indiana.

The Company seeks to develop a broad range of equipment for all facets of the markets it serves. Over the next several years the Company expects to focus its research and development efforts on the development of fiber-based composites products and advancement of paper recycling equipment.

Research and development expenses for the Company were $7.3 million, $7.0 million, and $6.8 million in 1999, 1998, and 1997, respectively.

(iii)Raw Materials

Raw materials, components, and supplies for all of the Company's significant products are available either from a number of different suppliers or from alternative sources that could be developed without a material adverse effect on the Company's business. To date, the Company has experienced no difficulties in obtaining these materials.

(iv) Patents, Licenses, and Trademarks

The Company protects its intellectual property rights by applying for and obtaining patents when appropriate. The Company also relies on technical know-how, trade secrets, and trademarks to maintain its competitive position. The Company has numerous U.S. and foreign patents expiring on various dates ranging from 2000 to 2018.

Third parties have certain rights in two of the Company's patents that were jointly developed with such parties. The initial development of the

Company's Gyroclean equipment was provided by Centre Technique du Papier (CTP), to which the Company provided further design refinement and applications expertise. The Company currently holds an exclusive long-term, worldwide license for a patent on technology that CTP developed. The Company and CTP have joint ownership of a second patent on technology that was jointly developed.

The Company maintains a worldwide network of licensees and cross-licensees of products with other companies servicing the pulp, papermaking, converting, and paper recycling industries. The Company holds an exclusive worldwide license for certain de-inking cells under an agreement that extends until 2007. The Company also has license arrangements with several companies with regard to accessory equipment. Thermo Fibergen has granted two companies nonexclusive licenses under two of its patents to sell cellulose-based granules produced at an existing site for sale in the oil and grease absorption and cat box filler markets.

(v) Seasonal Influences

Pulp and Papermaking Equipment and Systems

There are no material seasonal influences on the segment's sales of products and services.

Water- and Fiber-recovery Services and Products

A substantial portion of the revenues of the Water- and Fiber-recovery Services and Products segment are from the sale of cellulose-based products in the agricultural-carrier market. The Company's primary customers in this market, chemical formulators, typically purchase carriers during the winter and spring for the cultivation and planting season. As a result, the segment earns a disproportionately high share of its revenues from its agricultural-carrier products during the first two quarters of the year. The Company believes that its entrance into the oil and grease absorption, cat box filler, horse bedding, international agricultural row-crop, and fiber-based composites markets, if successful, may mitigate the seasonality of the sales of this segment.

(vi) Working Capital Requirements

There are no special inventory requirements or credit terms extended to customers that would have a material adverse effect on the Company's working capital.

(vii)Dependency on a Single Customer

No single customer accounted for more than 10% of the Company's revenues in any of the past three years.

(viii)Backlog

The Company's backlog of firm orders for the Pulp and Papermaking Equipment and Systems segment was $51.5 million and $49.5 million at year-end 1999 and 1998, respectively. The backlog of firm orders for the Water- and Fiber-recovery Products and Services segment was $0.8 million and $0.4 million at year-end 1999 and 1998, respectively. In addition, the Water- and Fiber-recovery Products and Services segment has a ten-year contract to provide clean water and long fiber to a mill. The contract may be canceled by either party within six months after the end of the fourth year of the contract, or thereafter by the paper mill with one year's notice, if certain benefits or profitability levels are not achieved. The Company anticipates that substantially all of the backlog at January 1, 2000, will be shipped or completed during the next twelve months. Certain of these orders may be canceled by the customer upon payment of a cancellation fee.

(ix) Government Contracts

Not applicable.

(x) Competition

The Company faces significant competition in each of its principal markets. The Company competes principally on the basis of quality, price, service, technical expertise, and product innovation. The Company believes that the reputation it has established over more than 100 years for quality products and in-depth process knowledge provides it with a competitive advantage. In addition, a significant portion of the Company's business is generated from its existing customer base. To maintain this base, the Company has emphasized service and a problem-solving relationship with its customers.

Pulp and Papermaking Equipment and Systems

The Company is a leading supplier of stock-preparation equipment for the preparation of wastepaper to be used in the production of recycled paper. There are several major competitors that supply various pieces of equipment for this process. The Company's principal competitors on a worldwide basis are Voith Sulzer Papiertechnik, Groupe Laperriere & Verrault Inc., Ahlstrom Machine Company, Kvaerner Pulping Technologies, Metso Corporation, and Maschinenfabrik Andritz AG. Various competitors tend to specialize in segments within the white- and brown-paper markets. The Company competes in this market primarily on the basis of systems knowledge, product innovation, and price.

The Company is a leading supplier of specialty accessory equipment for papermaking machines. Because of the high capital costs of papermaking machines and the role of the Company's accessories in maintaining the efficiency of these machines, the Company generally competes in this market on the basis of service, technical expertise, and performance.

The Company is a leading supplier of water-management systems. Various competitors exist in the formation table, conditioning and cleaning systems, and filtration systems markets. JWI Group/Johnson Foils is a major supplier of formation tables, while a variety of smaller companies compete within the cleaning and conditioning, and filtration markets. In each of these areas, process knowledge, application experience, product quality, service, and price are key factors.

Water- and Fiber-recovery Services and Products

The Company expects that its principal competitors for access to papermaking byproducts will be landfills, which currently have a large market share in both North America and Europe. The Company believes, however, that landfill costs will tend to increase over time and that regulations governing landfills will become more strict, particularly in Europe. The balance of the papermaking byproducts produced in the U.S. and Europe is currently incinerated or used to manufacture composting materials, egg cartons, and other low-value industrial products. The Company competes principally on the basis of price and its ability to offer long-term environmentally acceptable byproduct management alternatives.

Certain companies are seeking to develop technologies and services to treat and process papermaking byproducts that are similar to those of the Company. No assurance can be given that such technologies and services will not be superior to those of the Company. As other companies attempt to provide landfill services or byproduct processing capabilities, or both, to the pulp and paper industry, the Company expects to encounter increasing competition.

The Company believes that its approach to the management of environmental problems associated with papermaking byproducts and its ability to take advantage of the Company's name recognition, financial strength, and experience constitute significant competitive advantages.

The Company believes that it is currently the only producer of paper-based agricultural carriers. In this market, the Company's principal competitors in the U.S. are producers of clay-based agricultural carriers for row crops and professional turf protection, including Oil-Dri Corporation of America, Floridin/Engelhard, Aimcor, and American Colloid, and producers of corncob-based granules traditionally used in the home lawn and garden and professional turf markets, including The Andersons, Mt. Pulaski, Green Products, Independence Cob, and Junior Weisner. The Company's principal competitive advantages are that its agricultural carrier product is virtually dust-free and is more uniform in absorptivity and particle-size distribution than are clay- and corncob-based granular carriers. In addition, it is also chemically neutral, requiring little or no chemical deactivation.

As the Company attempts to develop new markets for the components of the papermaking byproducts it processes, the Company will encounter competition from established companies within those markets. Some of these competitors may have substantially greater financial, marketing, and other resources than those of the Company, and the Company expects that such competition may be intense. The Company believes that in the absorbing-products industry price is a significant competitive factor and therefore, expects that the demand for the Company's products in such markets will be significantly influenced by the Company's prices for such products.

(xii)Environmental Protection Regulations

The Company believes that compliance by the Company with federal, state, and local environmental protection regulations will not have a material adverse effect on its capital expenditures, earnings, or competitive position.

(xiii)Number of Employees

As of January 1, 2000, the Company employed approximately 1,200 people. Approximately 25 employees at the Company's Pointe Claire, Quebec, Canada, operation are represented by a labor union under a collective bargaining agreement expiring August 31, 2002. Approximately 38 employees at the Company's Guadalajara, Mexico, operation are represented by a labor union under an annual collective bargaining agreement. In addition, employees of the Company's subsidiaries in France and England are represented by trade unions. The Company considers its relations with employees and unions to be good.

(d) Financial Information About Geographic Areas

Financial information about exports by domestic operations and about foreign operations is summarized in Note 13 to Consolidated Financial Statements in the Registrant's 1999 Annual Report to Shareholders, which information is incorporated herein by reference.

(e) Executive Officers of the Registrant

Name	Age	Present Title (Fiscal Year First Became Executive Officer)
William A. Rainville	58	President and Chief Executive Officer (1991)
Thomas M. O'Brien	48	Executive Vice President, Finance (1994)
Jonathan W. Painter	41	Executive Vice President, Operations (1997)
Jan-Eric Bergstedt	64	Vice President (1996)
Bruno Lamort de Gail	65	Vice President (1991)
Edward J. Sindoni	55	Vice President; President, Thermo Web Systems, Inc. (1994)
Theo Melas-Kyriazi	40	Chief Financial Officer (1998)
Paul F. Kelleher	57	Chief Accounting Officer (1991)

Each executive officer serves until his successor is chosen or appointed by the Board of Directors and qualified or until earlier resignation, death, or removal. Messrs. Rainville, Lamort de Gail, and Kelleher have held comparable positions for at least five years with the Company or with its parent company, Thermo Electron. Mr. Painter has been Executive Vice President, Operations of the Company since 1997, was Treasurer of Thermo Electron from 1994 to 1997, was Vice President, Strategic Planning of the Company from 1993 to 1994, and became an Executive Officer of the Company in 1997. Mr. Bergstedt has been a Vice President of the Company since November 1993, and was designated an Executive Officer in 1996. Mr. O'Brien has been Executive Vice President, Finance of the Company since September 1998, was Vice President, Finance of the Company from November 1991 until September 1998, and was designated an Executive Officer in 1994. Mr. Sindoni has been Vice President of the Company since November 1991, President of the Company's Thermo Web Systems, Inc. subsidiary since January 1993, was Senior Vice President of Thermo Web Systems Inc. from 1987 to January 1993, and was designated an Executive Officer in 1994. Mr. Melas-Kyriazi was appointed Chief Financial Officer of the Company and Thermo Electron on January 1, 1999. He joined Thermo Electron in 1986 as Assistant Treasurer, and became Treasurer in 1988. He was named President and Chief Executive Officer of ThermoSpectra Corporation, then a public subsidiary of Thermo Instrument Systems Inc., in 1994, a position he held until becoming Vice President of Corporate Strategy for Thermo Electron in 1998. Mr. Melas-Kyriazi remains a Vice President of Thermo Electron. Messrs. Melas-Kyriazi and Kelleher are full-time employees of Thermo Electron, but devote such time to the affairs of the Company as the Company's needs reasonably require.

Item 2. Properties

The Company believes that its facilities are in good condition and are suitable and adequate for its present operations and that, with respect to leases expiring in the near future, suitable space is readily available if any leases are not extended. The location and general character of the Company's principal properties by segment as of January 1, 2000, are as follows:

Pulp and Papermaking Equipment and Systems

The Company owns approximately 1,000,000 square feet and leases approximately 110,000 square feet, under leases expiring at various dates ranging from 2000 to 2008, of manufacturing, engineering, and office space. The Company's principal engineering and manufacturing space is located in Vitry-le-Francois, France; Auburn, Massachusetts; Rayville, Louisiana; Queensbury, New York; Middletown, Ohio; Guadalajara, Mexico; Pointe Claire, Quebec, Canada; and Bury, England.

Water- and Fiber-recovery Services and Products

The Company owns approximately 26,000 square feet and leases approximately 72,000 square feet, under leases expiring at various dates ranging through 2004, of manufacturing, engineering, and office space located principally in Green Bay, Wisconsin; Columbus, Indiana; Bedford, Massachusetts; and Cowpens, South Carolina.

Item 3. Legal Proceedings

Not applicable.

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

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Information concerning the market and market price for the Registrant's Common Stock, $.01 par value, and dividend policy is included under the sections labeled "Common Stock Market Information" and "Dividend Policy" in the Registrant's 1999 Annual Report to Shareholders and is incorporated herein by reference.

Item 6. Selected Financial Data

The information required under this item is included under the sections labeled "Selected Financial Information" and "Dividend Policy" in the Registrant's 1999 Annual Report to Shareholders and is incorporated herein by reference.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information required under this item is included under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Registrant's 1999 Annual Report to Shareholders and is incorporated herein by reference.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The information required under this item is included under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Registrant's 1999 Annual Report to Shareholders and is incorporated herein by reference.

Item 8. Financial Statements and Supplementary Data

The Registrant's Consolidated Financial Statements as of January 1, 2000, and Supplementary Data are included in the Registrant's 1999 Annual Report to Shareholders and are incorporated herein by reference.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information concerning directors required under this item is incorporated herein by reference from the material contained under the caption "Election of Directors" in the Registrant's definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after the close of the fiscal year. The information concerning delinquent filers pursuant to Item 405 of Regulation S-K is incorporated herein by reference from the material contained under the heading "Section 16(a) Beneficial Ownership Reporting Compliance" under the caption "Stock Ownership" in the Registrant's definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after the close of the fiscal year.

Item 11. Executive Compensation

The information required under this item is incorporated herein by reference from the material contained under the caption "Executive Compensation" in the Registrant's definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after the close of the fiscal year.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required under this item is incorporated herein by reference from the material contained under the caption "Stock Ownership" in the Registrant's definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after the close of the fiscal year.

Item 13. Certain Relationships and Related Transactions

The information required under this item is incorporated herein by reference from the material contained under the caption "Relationship with Affiliates" in the Registrant's definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A, not later than 120 days after the close of the fiscal year.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a,d) Financial Statements and Schedules

(1) The consolidated financial statements set forth in the list below are filed as part of this Report.

(2) The consolidated financial statement schedule set forth in the list below is filed as part of this Report.

(3) Exhibits filed herewith or incorporated herein by reference are set forth in Item 14(c) below.

List of Financial Statements and Schedules Referenced in this Item 14

Information incorporated by reference from Exhibit 13 filed herewith:

Consolidated Statement of Income
Consolidated Balance Sheet
Consolidated Statement of Cash Flows
Consolidated Statement of Comprehensive Income and Shareholders' Investment

Notes to Consolidated Financial Statements

Report of Independent Public Accountants

Financial Statement Schedules filed herewith:

Schedule II: Valuation and Qualifying Accounts

All other schedules are omitted because they are not applicable or not required, or because the required information is shown either in the financial statements or in the notes thereto.

(b) Reports on Form 8-K

None.

(c) Exhibits

See Exhibit Index on the page immediately preceding exhibits.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: March 16, 2000 THERMO FIBERTEK INC.

By: /s/ William A. Rainville
William A. Rainville
President, Chief Executive Officer, and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated, as of March 16, 2000.

Signature	Title
By: /s/ William A. Rainville William A. Rainville	President, Chief Executive Officer, and Director
By: /s/ Theo Melas-Kyriazi Theo Melas-Kyriazi	Chief Financial Officer
By: /s/ Paul F. Kelleher Paul F. Kelleher	Chief Accounting Officer
By: /s/ Walter J. Bornhorst Walter J. Bornhorst	Director
By: /s/ George N. Hatsopoulos George N. Hatsopoulos	Director
By: /s/ Francis L. McKone Francis L. McKone	Director
By: /s/ Donald E. Noble Donald E. Noble	Chairman of the Board and Director
By: /s/ Richard F. Syron Richard F. Syron	Director

Report of Independent Public Accountants

To the Shareholders and Board of Directors of Thermo Fibertek Inc.:

We have audited, in accordance with generally accepted auditing standards, the consolidated financial statements included in Thermo Fibertek Inc.'s Annual Report to Shareholders incorporated by reference in this Form 10-K, and have issued our report thereon dated February 9, 2000. Our audits were made for the purpose of forming an opinion on those statements taken as a whole. The schedule listed in Item 14 on page 13 is the responsibility of the Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic consolidated financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, fairly states in all material respects the consolidated financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

Arthur Andersen LLP

Boston, Massachusetts
February 9, 2000

SCHEDULE II

THERMO FIBERTEK INC.
Valuation and Qualifying Accounts
(In thousands)

Description	Balance at Beginning of Year	Provision Charged to Expense	Accounts Recovered	Accounts Written Off	Other (a)	Balance at End of Year
Allowance for Doubtful Accounts						
Year Ended January 1, 2000	$2,231	$ 234	$ -	$ (586)	$ (220)	$1,659
Year Ended January 2, 1999	$2,565	$ 248	$ 15	$ (657)	$ 60	$2,231
Year Ended January 3, 1998	$1,948	$ 362	$ -	$ (576)	$ 831	$2,565

Description	Balance at Beginning of Year	Established as Cost of Acquisitions	Activity Charged to Reserve	Other (c)	Balance at End of Year
Accrued Acquisition Expenses (b)					
Year Ended January 1, 2000	$ 149	$ -	$ (69)	$ (80)	$ -
Year Ended January 2, 1999	$ 562	$ 80	$ (274)	$ (219)	$ 149
Year Ended January 3, 1998	$ -	$ 718	$ (156)	$ -	$ 562

Description	Balance at Beginning of Year	Provision Charged to Expense	Activity Charged to Reserve	Currency Translation	Balance at End of Year
Accrued Restructuring Costs (d)					
Year Ended January 1, 2000	$ 34	$2,257	$(1,356)	$ (266)	$ 669
Year Ended January 2, 1999	$ 197	$ -	$ (163)	$ -	$ 34
Year Ended January 3, 1998	$ -	$1,063	$ (866)	$ -	$ 197

(a) Includes allowances of businesses acquired and sold during the year, as described in Note 3 to Consolidated Financial Statements in the Registrant's 1999 Annual Report to Shareholders, and the effect of foreign currency translation.
(b) The nature of activity in this account is described in Note 3 to Consolidated Financial Statements in the Registrant's 1999 Annual Report to Shareholders.
(c) Represents reversal of accrued acquisition expenses and corresponding reduction of cost in excess of net assets of acquired companies resulting from finalization of restructuring plans.

(d) The nature of activity in this account is described in Note 11 to Consolidated Financial Statements in the Registrant's 1999 Annual Report to Shareholders.

EXHIBIT INDEX

Exhibit Number	Description of Exhibit
2.1	Share Redemption Agreement, dated as of December 22, 1994, by and among the Registrant, Fiberprep Inc., and Aikawa Iron Works Co., Ltd. (filed as Exhibit 2.1 to the Registrant's Current Report on Form 8-K relating to events occurring on January 2, 1995 [File No 1-11406] and incorporated herein by reference).
2.2	Asset Purchase Agreement dated as of May 22, 1997 among BC Acquisition Corp., Thermo Fibertek Inc., The Black Clawson Company, Black Clawson Shartle Mfg. Co. Inc., Black Clawson International, Ltd., Black Clawson Canada Fibre Processing Ltd., Black Clawson Europe S.A. and Carl C. Landegger (filed as Exhibit 2.1 to the Registrant's Current Report on Form 8-K relating to events occurring on May 22, 1997 [File No 1-11406] and incorporated herein by reference).
3.1	Certificate of Incorporation, as amended, of the Registrant (filed as Exhibit 3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 28, 1997 [File No. 1-11406] and incorporated herein by reference).
3.2	By-Laws of the Registrant (filed as Exhibit 3(b) to the Registrant's Registration Statement on Form S-1 [Reg. No. 33-51172] and incorporated herein by reference).
4.1 - 4.4	Reserved.
4.5	Fiscal Agency Agreement dated as of July 16, 1997, among the Registrant, Thermo Electron Corporation, and Bankers Trust Company as fiscal agent, relating to $153 million principal amount of 4 1/2% Convertible Subordinated Debentures due 2004 (filed as Exhibit 4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 28, 1997 [File No. 1-11406] and incorporated herein by reference).
10.1	Exchange Agreement dated as of December 28, 1991, between Thermo Electron and the Registrant (filed as Exhibit 10(a) to the Registrant's Registration Statement on Form S-1 [Reg. No. 33-51172] and incorporated herein by reference).
10.2	Amended and Restated Corporate Services Agreement dated January 3, 1993, between the Thermo Electron and the Registrant (filed as Exhibit 10(b) to the Registrant's Annual Report on Form 10-K for the fiscal year ended January 2, 1993 [File No. 1-11406] and incorporated herein by reference).
10.3	Thermo Electron Corporate Charter, as amended and restated effective January 3, 1993 (filed as Exhibit 10(e) to the Registrant's Annual Report on Form 10-K for the fiscal year ended January 2, 1993 [File No. 1-11406] and incorporated herein by reference).
10.4	Thermo Web Systems, Inc. (formerly Thermo Electron Web Systems, Inc.) Retirement Plan, as amended (filed as Exhibit 10(g) to the Registrant's Registration Statement on Form S-1 [Reg. No. 33-51172] and incorporated herein by reference).
10.5	Noncompetition Agreement dated May 30, 1990, between Thermo Electron and Bruno Lamort de Gail (filed as Exhibit 10(h) to the Registrant's Registration Statement on Form S-1 [Reg. No. 33-51172] and incorporated herein by reference).
10.6	Lamort Retirement Plan (filed as Exhibit 10(i) to the Registrant's Registration Statement on Form S-1 [Reg. No. 33-51172] and incorporated herein by reference).

Exhibit Number	Description of Exhibit
10.7	Lamort Retirement Plan for Key Employees (filed as Exhibit 10(j) to the Registrant's Registration Statement on Form S-1 [Reg. No. 33-51172] and incorporated herein by reference).
10.8	Severance Agreement dated January 8, 1988, between Thermo Electron and William A. Rainville (filed as Exhibit 10(p) to the Registrant's Registration Statement on Form S-1 [Reg. No. 33-51172] and incorporated herein by reference).
10.9	Employment Agreement dated as of May 30, 1990, between the Registrant and Bruno Lamort de Gail (filed as Exhibit 10(q) to the Registrant's Registration Statement on Form S-1 [Reg. No. 33-51172] and incorporated herein by reference).
10.10	Form of Indemnification Agreement for officers and directors (filed as Exhibit 10(s) to the Registrant's Registration Statement on Form S-1 [Reg. No. 33-51172] and incorporated herein by reference).
10.11	Tax Allocation Agreement dated as of December 28, 1991, between the Registrant and Thermo Electron (filed as Exhibit 10.13 to the Registrant's Annual Report on Form 10-K for the fiscal year ended January 1, 1994 [File No. 1-11406] and incorporated herein by reference).
10.12	Assignment Agreement dated as of December 22, 1994, between Thermo Electron and TE Great Lakes, Inc. (filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995 [File No. 1-11406] and incorporated herein by reference).
10.13	Management Services Agreement dated as of December 22, 1994, between TE Great Lakes, Inc. and Fiberprep (filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995 [File No. 1-11406] and incorporated herein by reference).
10.14	Equipment Supply Agreement dated as of December 22, 1994, between TE Great Lakes, Inc. and Fiberprep (filed as Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995 [File No. 1-11406] and incorporated herein by reference).
10.15	Amended and Restated Master Cash Management, Guarantee Reimbursement, and Loan Agreement dated as of June 1, 1999, between the Registrant and Thermo Electron (filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 3, 1999 [File No. 1-11406] and incorporated herein by reference).
10.16	Amended and Restated Master Cash Management, Guarantee Reimbursement, and Loan Agreement dated as of June 1, 1999, between Thermo Fibergen Inc. and Thermo Electron (filed as Exhibit 10.1 to Thermo Fibergen Inc.'s Quarterly Report on Form 10-Q for the period ended July 3, 1999 [File No. 1-12137] and incorporated herein by reference).
10.17	Form of Guarantee of Thermo Electron relating to Thermo Fibergen's Redemption Rights (filed as Exhibit 4.1 to Thermo Fibergen's Registration Statement on Form S-1 [Reg. No. 333-07585] and incorporated herein by reference).
10.18	Guarantee Agreement among Thermo Fibergen, Thermo Electron, and the Representatives of the Underwriters (filed as Exhibit 4.2 to Thermo Fibergen's Registration Statement on Form S-1 [Reg. No. 333-07585] and incorporated herein by reference).

Exhibit Number	Description of Exhibit
10.19	Form of Thermo Fibergen's Redemption Right Certificate (filed as Exhibit 4.4 to Thermo Fibergen's Registration Statement on Form S-1 [Reg. No. 333-07585] and incorporated herein by reference).

10.20	Incentive Stock Option Plan of the Registrant (filed as Exhibit 10(k) to the Registrant's Registration Statement on Form S-1 [Reg. No. 33-51172] and incorporated herein by reference).
10.21	Amended and Restated Nonqualified Stock Option Plan of the Registrant (filed as Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 3, 1999 [File No. 1-11406] and incorporated herein by reference).
10.22	Amended and Restated Equity Incentive Plan of the Registrant (filed as Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 3, 1999 [File No. 1-11406] and incorporated herein by reference). In addition to the stock-based compensation plans of the Registrant, the executive officers of the Registrant may be granted awards under stock-based compensation plans of Thermo Electron for services rendered to the Registrant. The terms of such plans are substantially the same as those of the Registrant's Equity Incentive Plan.
10.23	Amended and Restated Deferred Compensation Plan for Directors of the Registrant (filed as Exhibit 10.5 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 3, 1999 [File No. 1-11406] and incorporated herein by reference).
10.24	Amended and Restated Directors' Stock Option Plan of the Registrant (filed as Exhibit 10.6 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 3, 1999 [File No. 1-11406] and incorporated herein by reference).
10.25	Amended and Restated Thermo Fibergen Inc. Equity Incentive Plan (filed as Exhibit 10.4 to Thermo Fibergen's Quarterly Report on Form 10-Q for the quarter ended July 3, 1999 [File No. 1-12137] and incorporated herein by reference).
10.26	Amended and Restated Thermo Fibertek Inc. - Thermo Fibergen Inc. Nonqualified Stock Option Plan (filed as Exhibit 10.8 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 3, 1999 [File No. 1-11406] and incorporated herein by reference).
10.27	Restated Stock Holding Assistance Plan and Form of Promissory Note (filed as Exhibit 10.27 to the Registrant's Annual Report on Form 10-K for the year ended January 3, 1998 [File No. 1-11406] and incorporated herein by reference).
13	Annual Report to Shareholders for the year ended January 1, 2000 (only those portions incorporated herein by reference).
21	Subsidiaries of the Registrant.
23	Consent of Arthur Andersen LLP.
27	Financial Data Schedule.

Exhibit 13

Thermo Fibertek Inc.

Consolidated Financial Statements

1999

Consolidated Statement of Income

(In thousands except per share amounts)	1999	1998	1997
Revenues (Notes 9 and 13)	$228,036	$247,426	$239,642
Costs and Operating Expenses:			
Cost of revenues (Note 9)	134,893	147,262	145,159
Selling, general, and administrative expenses (Note 9)	61,345	63,381	60,675
Research and development expenses	7,278	6,971	6,814
Gain on sale of business (Note 3) and property	(11,154)	(536)	-
Restructuring costs and unusual items (Note 11)	6,152	-	1,063
	198,514	217,078	213,711
Operating Income	29,522	30,348	25,931
Interest Income	8,478	7,956	7,325
Interest Expense (includes $1,411 to related party in 1997; Note 8)	(7,449)	(7,408)	(4,830)
Income Before Provision for Income Taxes and Minority Interest	30,551	30,896	28,426
Provision for Income Taxes (Note 7)	11,852	11,902	11,011
Minority Interest Expense	921	999	989
Net Income	$ 17,778	$ 17,995	$ 16,426
Earnings per Share (Note 14)			
Basic	$ .29	$ .29	$ .27
Diluted	$ .29	$ .29	$ .26
Weighted Average Shares (Note 14)			
Basic	61,186	61,612	61,384
Diluted	61,559	62,353	63,613

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

Consolidated Balance Sheet

(In thousands)	1999	1998
Assets		
Current Assets:		
Cash and cash equivalents (includes $74,447 under repurchase agreement with parent company in 1998)	$ 39,254	$115,472
Advance to affiliate	93,780	-
Available-for-sale investments, at quoted market value (amortized cost of $46,470 and $48,210; Note 2)	46,405	48,206
Accounts receivable, less allowances of $1,659 and $2,231	49,323	50,281
Unbilled contract costs and fees	9,570	2,968
Inventories	28,907	30,624
Deferred tax asset (Note 7)	4,896	6,806
Other current assets	1,034	1,935
	273,169	256,292
Property, Plant, and Equipment, at Cost, Net	30,494	31,736
Other Assets (Note 4)	17,044	12,309
Cost in Excess of Net Assets of Acquired Companies (Note 3)	121,870	126,763
	$442,577	$427,100

Consolidated Balance Sheet (continued)

(In thousands except share amounts)	1999	1998
Liabilities and Shareholders' Investment		
Current Liabilities:		
Current maturity of long-term obligation (Note 8)	$ 380	$ -
Accounts payable	21,957	21,548
Accrued payroll and employee benefits	8,659	10,273
Billings in excess of contract costs and fees	4,730	5,846

Accrued warranty costs	5,005	5,830
Customer deposits	3,242	3,154
Other accrued expenses (Notes 3 and 11)	20,322	14,916
Common stock of subsidiary subject to redemption ($49,788 redemption value; Note 1)	49,160	-
Due to parent company and affiliated companies	1,003	1,279
	114,458	62,846
Deferred Income Taxes and Other Deferred Items (Note 7)	6,365	6,202
Long-term Obligations:		
Subordinated convertible debentures (Note 8)	153,000	153,000
Note payable (Note 8)	1,350	-
	154,350	153,000
Minority Interest (Note 3)	3,334	303
Commitments and Contingencies (Note 10)		
Common Stock of Subsidiary Subject to Redemption ($54,762 redemption value; Note 1)	-	53,801
Shareholders' Investment (Notes 5 and 6):		
Common stock, $.01 par value, 150,000,000 shares authorized; 63,537,556 and 63,379,337 shares issued	635	634
Capital in excess of par value	77,411	78,731
Retained earnings	118,380	100,602
Treasury stock at cost, 2,327,521 and 2,238,830 shares	(21,239)	(21,286)
Deferred compensation	(66)	-
Accumulated other comprehensive items (Note 15)	(11,051)	(7,733)
	164,070	150,948
	$ 442,577	$ 427,100

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

Consolidated Statement of Cash Flows

(In thousands)	1999	1998	1997
Operating Activities			
Net income	$ 17,778	$ 17,995	$ 16,426
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	8,928	8,492	7,258
Provision for losses on accounts receivable	234	248	362
Minority interest expense	921	999	989
Gain on sale of business (Note 3) and property	(11,154)	(536)	-
Noncash restructuring costs and unusual items (Note 11)	3,239	-	-
Deferred income tax expense	1,572	2,090	1,976
Other noncash items	(105)	314	(192)
Changes in current accounts, excluding the effects of acquisitions and disposition:			
Accounts receivable	(4,448)	3,702	(1,878)
Inventories and unbilled contract costs and fees	(7,445)	3,277	(1,183)
Other current assets	448	836	(625)
Accounts payable	3,039	(5,787)	(3,344)
Other current liabilities	4,198	307	1,131
Net cash provided by operating activities	17,205	31,937	20,920

Investing Activities			
Acquisitions, net of cash acquired (Note 3)	(2,607)	(964)	(103,403)
Acquisition of capital equipment and technology (Note 3)	(500)	-	-
Proceeds from sale of business, net of cash divested (Note 3)	13,592	-	-
Refund of acquisition purchase price (Note 3)	377	-	-
Advances to affiliate, net	(93,780)	-	-
Purchases of available-for-sale investments	(61,825)	(70,882)	(48,050)
Proceeds from sale of available-for-sale investments	-	7,730	-
Proceeds from maturities of available-for-sale investments	63,565	51,470	12,256
Purchases of property, plant, and equipment	(3,903)	(7,773)	(3,793)
Proceeds from sale of property, plant, and equipment	414	1,586	60
Advances under notes receivable (Note 4)	-	(2,910)	(3,000)
Repayment of notes receivable (Note 4)	-	1,250	3,000
Other	(160)	(458)	57
Net cash used in investing activities	$ (84,827)	$ (20,951)	$(142,873)

Consolidated Statement of Cash Flows (continued)

(In thousands)	1999	1998	1997
Financing Activities			
Purchases of Company and subsidiary common stock	$ (5,804)	$ (6,598)	$ (23,951)
Purchases of subsidiary common stock from Thermo Electron	(2,227)	-	-
Net proceeds from issuance of Company and subsidiary common stock (Note 1)	551	405	1,069
Net proceeds from issuance of subordinated convertible debentures (Note 8)	-	-	149,768
Issuance of obligations to parent company (Note 8)	-	-	110,000
Repayment of obligations to parent company (Note 8)	-	-	(110,000)
Repayment of long-term obligations	-	-	(32)
Net cash provided by (used in) financing activities	(7,480)	(6,193)	126,854
Exchange Rate Effect on Cash	(1,116)	(969)	(3,058)
Increase (Decrease) in Cash and Cash Equivalents	(76,218)	3,824	1,843
Cash and Cash Equivalents at Beginning of Year	115,472	111,648	109,805
Cash and Cash Equivalents at End of Year	$ 39,254	$ 115,472	$ 111,648
Cash Paid For			
Interest	$ 6,913	$ 6,917	$ 1,741
Income taxes	$ 6,559	$ 5,431	$ 10,593
Noncash Activities			
Fair value of assets of acquired companies, capital equipment, and technology (Note 3)	$ 10,135	$ 1,161	$ 127,649
Cash paid for acquired companies, capital equipment, and technology	(3,160)	(964)	(103,415)
Payable for acquired company, capital equipment, and technology	(3,430)	-	-
Equity interest in subsidiary transferred for capital equipment and technology	(3,075)	-	-
Liabilities assumed of acquired companies	$ 470	$ 197	$ 24,234
Conversion of subordinated convertible note by parent company (Note 8)	$ -	$ -	$ 15,000

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

Consolidated Statement of Comprehensive Income and Shareholders' Investment

(In thousands)	1999	1998	1997
Comprehensive Income			
Net Income	$ 17,778	$ 17,995	$ 16,426
Other Comprehensive Items (Note 15):			
Foreign currency translation adjustment	(3,279)	(185)	(6,011)
Unrealized gain (loss) on available-for-sale investments, net of reclassification adjustment	(39)	(32)	29
	(3,318)	(217)	(5,982)
	$ 14,460	$ 17,778	$ 10,444
Shareholders' Investment			
Common Stock, $.01 Par Value:			
Balance at beginning of year	$ 634	$ 633	$ 612
Activity under employees' and directors' stock plans	1	1	2
Conversion of subordinated convertible note by parent company (Note 8)	-	-	19
Balance at end of year	635	634	633
Capital in Excess of Par Value:			
Balance at beginning of year	78,731	81,865	65,951
Activity under employees' and directors' stock plans	(1,916)	(4,401)	42
Tax benefit related to employees' and directors' stock plans	513	1,267	363
Conversion of subordinated convertible note by parent company (Note 8)	-	-	14,981
Effect of purchases of subsidiary common stock (Note 1)	83	-	528
Balance at end of year	77,411	78,731	81,865
Retained Earnings:			
Balance at beginning of year	100,602	82,607	66,181
Net income	17,778	17,995	16,426
Balance at end of year	118,380	100,602	82,607
Treasury Stock:			
Balance at beginning of year	(21,286)	(19,494)	(360)
Purchases of Company common stock	(2,511)	(6,598)	(20,159)
Activity under employees' and directors' stock plans	2,558	4,806	1,025
Balance at end of year	(21,239)	(21,286)	(19,494)
Deferred Compensation:			
Balance at beginning of year	-	-	-
Issuance of restricted stock under employees' stock plans (Note 5)	(91)	-	-
Amortization of deferred compensation	25	-	-
Balance at end of year	$ (66)	$ -	$ -

Consolidated Statement of Comprehensive Income and Shareholders' Investment (continued)

(In thousands)	1999	1998	1997
Accumulated Other Comprehensive Items (Note 15):			
Balance at beginning of year	$ (7,733)	$ (7,516)	$ (1,534)
Other comprehensive items	(3,318)	(217)	(5,982)
Balance at end of year	(11,051)	(7,733)	(7,516)
	$ 164,070	$ 150,948	$ 138,095

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

Notes to Consolidated Financial Statements

1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Thermo Fibertek Inc. (the Company) designs and manufactures processing machinery, accessories, and water-management systems for the paper and paper recycling industries. The Company's principal products include custom-engineered systems and equipment for the preparation of wastepaper for conversion into recycled paper; accessory equipment and related consumables important to the efficient operation of papermaking machines; and water-management systems essential for draining, purifying, and recycling process water. In addition, the Company develops and commercializes products derived from cellulose fiber.

Relationship with Thermo Electron Corporation

The Company was incorporated in November 1991 as a wholly owned subsidiary of Thermo Electron. As of January 1, 2000, Thermo Electron owned 55,773,057 shares of the Company's common stock, representing 91% of such stock outstanding.

Principles of Consolidation

The accompanying financial statements include the accounts of the Company, its wholly owned subsidiaries, its 74%-owned public subsidiary Thermo Fibergen Inc., and its 95%-owned Fiberprep, Inc. subsidiary. All material intercompany accounts and transactions have been eliminated.

Fiscal Year

The Company has adopted a fiscal year ending the Saturday nearest December 31. References to 1999, 1998, and 1997 are for the fiscal years ended January 1, 2000, January 2, 1999, and January 3, 1998, respectively. The Company's E. & M. Lamort, S.A. and Thermo Black Clawson, S.A. subsidiaries, based in France, have fiscal years ending on November 30 to allow sufficient time for the Company to receive their financial statements. Fiscal years 1999 and 1998 each included 52 weeks; fiscal 1997 included 53 weeks.

Revenue Recognition

The Company recognizes the majority of its revenues upon shipment of its products. The Company provides a reserve for its estimate of warranty costs at the time of shipment. In addition, revenues and profits on large contracts are recognized using the percentage-of-completion method. Revenues recorded under the percentage-of-completion method were $40,689,000 in 1999, $45,114,000 in 1998, and $37,733,000 in 1997. The percentage of completion is determined by relating the actual costs incurred to date to management's estimate of total costs to be incurred on each contract. If a loss is indicated on any contract in process, a provision is made currently for the entire loss. The Company's contracts generally provide for billing of customers upon the attainment of certain milestones specified in each contract. Revenues earned on contracts in process in excess of billings are classified as unbilled contract costs and fees, and amounts billed in excess of revenues are classified as billings in excess of contract costs and fees in the accompanying balance sheet. There are no significant amounts included in the accompanying balance sheet that are not expected to be recovered from existing contracts at current contract values, or that are not expected to be collected within one year, including amounts that are billed but not paid under retainage provisions.

Stock-based Compensation Plans

The Company applies Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for its stock-based compensation plans (Note 5). Accordingly, no accounting recognition is given to stock options granted at fair market value until they are exercised. Upon exercise, net proceeds, including tax benefits realized, are credited to shareholders' investment.

Income Taxes

The Company and Thermo Electron have a tax allocation agreement under which the Company and its subsidiaries, exclusive of its foreign operations and its Fiberprep and Thermo Fibergen subsidiaries, are included in the consolidated federal and certain state income tax returns filed by Thermo Electron. The agreement provides that in years in which these entities have taxable income, the Company will pay to Thermo Electron amounts comparable to the taxes it would have paid if the Company had filed separate tax returns. If Thermo Electron's equity ownership of the Company were to drop below 80%, the Company would be required to file its own federal income tax returns.

In accordance with Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes," the Company recognizes deferred income taxes based on the expected future tax consequences of differences between the financial statement basis and the tax basis of assets and liabilities, calculated using enacted tax rates in effect for the year in which the differences are expected to be reflected in the tax return.

Earnings per Share

Basic earnings per share have been computed by dividing net income by the weighted average number of shares outstanding during the year. Except where the effect would be antidilutive, diluted earnings per share have been computed assuming the conversion of the Company's convertible obligations and the elimination of the related interest expense, and the exercise of stock options, as well as their related income tax effects.

Cash and Cash Equivalents

The Company, along with other European-based subsidiaries of Thermo Electron, participates in a notional pool arrangement in the United Kingdom with Barclays Bank. Under this arrangement, Barclays notionally combines the positive and negative cash balances held by the participants to calculate the net interest yield/expense for the group. The benefit derived from this arrangement is then allocated based on balances attributable to the respective participants. Thermo Electron guarantees all of the obligations of each participant in this arrangement. The Company has access to a $1,779,000 line of credit under this arrangement. At year-end 1999 and 1998, the Company had invested $6,732,000 and $1,100,000, respectively, under this arrangement.

At year-end 1998, $74,447,000 of the Company's cash equivalents were invested in a repurchase agreement with Thermo Electron. Under this agreement, the Company in effect lent excess cash to Thermo Electron, which Thermo Electron collateralized with investments principally consisting of corporate notes, U.S. government-agency securities, commercial paper, money market funds, and other marketable securities, in the amount of at least 103% of such obligation. The Company's funds subject to the repurchase agreement were readily convertible into cash by the Company. The repurchase agreement earned a rate based on the 90-day Commercial Paper Composite Rate plus 25 basis points, set at the beginning of each quarter. Effective June 1999, the Company adopted a new cash management arrangement with Thermo Electron, described below, that replaces the repurchase agreement.

At year-end 1999 and 1998, the Company's cash equivalents also included corporate notes, money market funds, and other marketable securities of the Company's foreign subsidiaries, which had original maturities of three months or less. Cash equivalents are carried at cost, which approximates market value.

Advance to Affiliate

Effective June 1999, the Company and Thermo Electron commenced use of a new domestic cash management arrangement. Under the new arrangement, amounts advanced to Thermo Electron by the Company for domestic cash management purposes bear interest at the 30-day Dealer Commercial Paper Rate plus 50 basis points, set at the beginning of each month. Thermo Electron is contractually required to maintain cash, cash equivalents, and/or immediately available bank lines of credit equal to at least 50% of all funds invested under this cash management arrangement by all Thermo Electron subsidiaries other than wholly owned subsidiaries. The Company has the contractual right to withdraw its funds invested in the cash management arrangement upon 30 days' prior notice.

In addition, certain of the Company's European-based subsidiaries participate in a new cash management arrangement with a wholly owned subsidiary of Thermo Electron on terms similar to the domestic cash management arrangement.

Inventories

Inventories are stated at the lower of cost (on a first-in, first-out or weighted average basis) or market value and include materials, labor, and manufacturing overhead. The components of inventories are as follows:

(In thousands)	1999	1998
Raw Materials and Supplies	$12,088	$14,848
Work in Process	6,122	5,341
Finished Goods	10,697	10,435
	$28,907	$30,624

The Company periodically reviews its quantities of inventories on hand and compares these amounts to expected usage of each particular product or product line. The Company records as a charge to cost of revenues any amounts required to reduce the carrying value of inventories to net realizable value.

Property, Plant, and Equipment

The costs of additions and improvements are capitalized, while maintenance and repairs are charged to expense as incurred. The Company provides for depreciation and amortization using the straight-line method over the estimated useful lives of the property as follows: fiber-recovery and water-clarification facility, the shorter of the term of the service contract or the life of the asset; buildings, 15 to 40 years; machinery and equipment, 2 to 10 years; and leasehold improvements, the shorter of the term of the lease or the life of the asset. Property, plant, and equipment consists of the following:

(In thousands)	1999	1998
Land	$ 2,886	$ 3,172
Fiber-recovery and Water-clarification Facility	3,573	3,500
Buildings	19,676	20,513
Machinery, Equipment, and Leasehold Improvements	41,669	41,476
	67,804	68,661
Less: Accumulated Depreciation and Amortization	37,310	36,925
	$30,494	$31,736

Other Assets

Other assets in the accompanying balance sheet includes intangible assets, a note receivable (Note 4), and deferred debt expense. Intangible assets includes the costs of patents, acquired intellectual property, and a noncompete agreement entered into in connection with the acquisition of the stock-preparation business of Black Clawson Company and its affiliates, which are amortized using the straight-line method over periods of up to 15, 7, and 10 years, respectively. The aggregate carrying value of these assets is $10,676,000 and $3,317,000, net of accumulated amortization of $1,328,000 and $683,000 at year-end 1999 and 1998, respectively.

Cost in Excess of Net Assets of Acquired Companies

The excess of cost over the fair value of net assets of acquired companies is amortized using the straight-line method principally over 40 years. Accumulated amortization was $12,642,000 and $9,193,000 at year-end 1999 and 1998, respectively. The Company assesses the future useful life of this asset whenever events or changes in circumstances indicate that the current useful life has diminished. Such events or circumstances generally would include the occurrence of operating losses or a significant decline in earnings associated with the acquired business or asset. The Company considers the future undiscounted cash flows of the acquired companies in assessing the recoverability of this asset. The Company assesses cash flows before interest charges and when impairment is indicated, writes the asset down to fair value. If quoted market values are not available, the Company estimates fair value by calculating the present value of future cash flows. If impairment has occurred, any excess of carrying value over fair value is recorded as a loss.

Common Stock of Subsidiary Subject to Redemption

In September 1996, Thermo Fibergen sold 4,715,000 units, each unit consisting of one share of Thermo Fibergen common stock and one redemption right, in an initial public offering at $12.75 per unit for net proceeds of

$55,781,000. The common stock and redemption rights subsequently began trading separately. Holders of a redemption right have the option to require Thermo Fibergen to redeem one share of Thermo Fibergen common stock at $12.75 per share in September 2000 or September 2001. A redemption right may only be exercised if the holder owns a share of Thermo Fibergen common stock at that time. The redemption rights carry terms that generally provide for their expiration if the closing price of Thermo Fibergen's common stock exceeds $19 1/8 for 20 of any 30 consecutive trading days prior to September 2001. The difference between the redemption value and the original carrying amount of common stock of subsidiary subject to redemption is accreted over the period ending September 2000, which corresponds with the first redemption period. The accretion is charged to minority interest expense in the accompanying statement of income. The redemption rights are guaranteed on a subordinated basis by Thermo Electron. The Company has agreed to reimburse Thermo Electron in the event Thermo Electron is required to make a payment under the guarantee.

Foreign Currency

All assets and liabilities of the Company's foreign subsidiaries are translated at year-end exchange rates and revenues and expenses are translated at average exchange rates for the year in accordance with SFAS No. 52, "Foreign Currency Translation." Resulting translation adjustments are reflected in the "Accumulated other comprehensive items" component of shareholders' investment (Note 15). Foreign currency transaction gains and losses are included in the accompanying statement of income and are not material for the three years presented.

Forward Contracts

The Company uses short-term forward foreign exchange contracts to manage certain exposures to foreign currencies. The Company enters into forward contracts to hedge firm purchase and sale commitments denominated in currencies other than its subsidiaries' local currencies. These contracts principally hedge transactions denominated in U.S. dollars, British pounds sterling, and Canadian dollars. The purpose of the Company's foreign currency hedging activities is to protect the Company's local currency cash flows related to these commitments from fluctuations in foreign exchange rates. Gains and losses arising from forward foreign exchange contracts are recognized as offsets to gains and losses resulting from the transactions being hedged. The Company does not enter into speculative foreign currency agreements.

Recent Accounting Pronouncement

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) 101, "Revenue Recognition in Financial Statements." SAB 101 includes requirements for when shipments may be recorded as revenue when the terms of the sale include customer acceptance provisions or an obligation of the seller to install the product. In such instances, SAB 101 generally requires that revenue recognition occur at completion of installation and/or upon customer acceptance. SAB 101 requires that companies conform their revenue recognition practices to the requirements therein during the first quarter of calendar 2000 through recording a cumulative net of tax effect of the change in accounting. The Company has not completed the analysis to determine the effect that SAB 101 will have on its financial statements.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Available-for-sale Investments

The Company's debt securities are considered available-for-sale investments in the accompanying balance sheet and are carried at market value, with the difference between cost and market value, net of related tax effects, recorded in the "Accumulated other comprehensive items" component of shareholders' investment. The aggregate market value, cost basis, and gross unrealized gains and losses of available-for-sale investments by major security type are as follows:

(In thousands)	Market Value	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses
1999				
Government-agency Securities	$46,074	$46,139	$ -	$ (65)
Other	331	331	-	-
	$46,405	$46,470	$ -	$ (65)
1998				
Government-agency Securities	$47,494	$47,498	$ 6	$ (10)
Other	712	712	-	-
	$48,206	$48,210	$ 6	$ (10)

Available-for-sale investments in the accompanying 1999 balance sheet have contractual maturities of one year or less. Actual maturities may differ from contractual maturities as a result of the Company's intent to sell these securities prior to maturity and as a result of put and call features of the securities that enable either the Company, the issuer, or both to redeem these securities at an earlier date.

The cost of available-for-sale investments that were sold was based on specific identification in determining the gross realized gains and losses in the accompanying statement of income.

3. Composites Venture, Acquisitions, and Disposition

Composites Venture

In October 1999, Thermo Fibergen created a subsidiary, NEXT Fiber Products Inc., to develop, produce, and market fiber-based composites primarily for the building industry. Thermo Fibergen capitalized NEXT Fiber Products with $3,200,000 in cash. NEXT Fiber Products then purchased capital equipment and technology related to the development of fiber-based composites, valued at $5,275,000, in exchange for shares of its common stock equal to 49% of its equity and $2,200,000 in cash, payable in installments, if certain conditions are met. The Company paid $500,000 of the purchase price in 1999. The $1,700,000 remaining obligation is included in other accrued liabilities in the accompanying 1999 balance sheet. Subsequent to year end, Thermo Fibergen paid $1,200,000 of this obligation. To the extent that NEXT Fiber Products does not purchase $1,000,000 of capital equipment by April 2001, the remaining funds will be remitted to the seller as additional consideration for the acquired assets. As of January 1, 2000, Thermo Fibergen had committed $517,000 of such funds for purchases of capital equipment. Thermo Fibergen has options to acquire the 49% equity interest that it does not own, exercisable during the months of October 2001, 2002, or 2003, for pre-established multiples of NEXT Fiber Products' pre-tax earnings.

Thermo Fibergen is currently finalizing development of the composites material. Thermo Fibergen expects to complete construction of and begin operating the composites manufacturing facility, located in Green Bay, Wisconsin, during 2000.

Acquisitions

In May 1999, the Company acquired the outstanding stock of Arcline Products, a manufacturer of shower and doctor oscillation systems, for $2,660,000 in cash and $2,000,000 payable over five years (Note 8). The cost of this acquisition approximated the fair value of the net assets acquired.

In July 1998, the Company acquired Goslin Birmingham, a division of Green

Bay Packaging Inc., for $1,296,000 in cash. During 1999, the Company received a post-closing purchase price adjustment of $377,000 related to this acquisition. The Company recorded this amount as a reduction of cost in excess of net assets of acquired companies. The cost of this acquisition exceeded the estimated fair value of the acquired net assets by $860,000 and is being amortized over 40 years. Goslin manufactures evaporators and recausticizing systems that concentrate and recycle process chemicals used during pulping, and products that remove condensate gases.

In May 1997, the Company acquired a majority of the assets, subject to certain liabilities, of the stock-preparation business of Black Clawson Company and affiliates. In August 1997, the Company acquired the remaining assets of the stock-preparation business of Black Clawson Company and affiliates. This business has been renamed Thermo Black Clawson. The aggregate purchase price was approximately $103,100,000 in cash, which is net of a purchase price adjustment of $332,000 in 1998. Pursuant to a promissory note, the Company borrowed $110,000,000 from Thermo Electron to finance this acquisition (Note 8). The note was repaid in July 1997 with the net proceeds from the sale of long-term subordinated convertible debentures. The cost of this acquisition exceeded the estimated fair value of the acquired net assets by $91,805,000 and is being amortized over 40 years. Thermo Black Clawson is a leading supplier of recycling equipment used in processing fiber for the production of "brown paper," such as that used in the manufacture of corrugated boxes.

These acquisitions have been accounted for using the purchase method of accounting and their results of operations have been included in the accompanying financial statements from their respective dates of acquisition. Allocation of the purchase price for these acquisitions was based on estimates of the fair value of the net assets acquired.

In connection with these acquisitions, the Company has undertaken restructuring activities at the acquired businesses. The Company's restructuring activities, which were accounted for in accordance with Emerging Issues Task Force Pronouncement (EITF) 95-3, primarily have included reductions in staffing levels. In connection with these restructuring activities, as part of the cost of the acquisitions, the Company established reserves, primarily for severance and acquired overmarket leases. In accordance with EITF 95-3, the Company finalized its restructuring plans no later than one year from the respective dates of the acquisitions. Accrued acquisition expenses are included in other accrued expenses in the accompanying balance sheet.

A summary of the changes in accrued acquisition expenses follows:

	Abandoned Facilities	Severance		
(In thousands)	Thermo Black Clawson	Goslin	Thermo Black Clawson	Total
Balance at December 28, 1996	$ -	$ -	$ -	$ -
Reserves established	64	-	654	718
Usage	(17)	-	(139)	(156)
Balance at January 3, 1998	47	-	515	562
Reserves established	-	80	-	80
Usage	(47)	-	(227)	(274)
Decrease due to finalization of restructuring plan, recorded as a decrease to cost in excess of net assets of acquired companies	-	-	(219)	(219)
Balance at January 2, 1999	-	80	69	149
Usage	-	-	(69)	(69)
Decrease due to finalization of restructuring plan, recorded as a decrease to cost in excess of net assets of acquired companies	-	(80)	-	(80)

Balance at January 1, 2000	$ -	$ -	$ -	$ -

The reserves established in 1997 related to severance costs for 52 employees across all functions and costs to abandon a sales office, both at Thermo Black Clawson.

3. Composites Venture, Acquisitions, and Disposition (continued)

Based on unaudited data, the following table presents selected financial information for the Company and Thermo Black Clawson on a pro forma basis for 1997, assuming the companies had been combined since the beginning of 1997. The effect of acquisitions not included in the pro forma data was not material to the Company's results of operations.

(In thousands except per share amounts)	1997
Revenues	$282,376
Net Income	16,093
Earnings per Share:	
Basic	.26
Diluted	.25

The pro forma results are not necessarily indicative of future operations or the actual results that would have occurred had the acquisition of Thermo Black Clawson been made at the beginning of 1997.

Disposition

In February 1999, the Company sold its Thermo Wisconsin, Inc. subsidiary for $13,631,000 in cash, resulting in a pretax gain of $11,154,000. The Company decided to sell Thermo Wisconsin to divest of a non-strategic, cyclical operating unit. Thermo Wisconsin, a manufacturer and marketer of dryers and pollution-control equipment, had unaudited revenues to external customers and net income in 1998 of $18,877,000 and $1,547,000, respectively.

4. Note Receivable

During 1996, the Company loaned $6,000,000 to Tree-Free Fiber Company LLC (Tree-Free) in connection with a proposed engineering, procurement, and construction project. This project was delayed due to weakness in pulp prices, and will not proceed as a result of Tree-Free's insolvency. Tree-Free was unable to repay the note upon its original maturity. The note is secured by pari-passu liens on a tissue mill in Maine and related assets. In December 1997, the Superior Court of Maine appointed a receiver to preserve and protect the collateral for the loans made by the Company and other lenders to Tree-Free. In May 1998, the Company purchased an assignment of Tree-Free's secured indebtedness to the other pari-passu lender for $2,910,000. In June 1998, the Company was the successful bidder at a foreclosure sale of the tissue mill and executed a purchase and sale agreement. In October 1998, the stock of a mill located in Mexico, which had also secured the note, was sold and the proceeds of $1,250,000 were paid to the Company and recorded as a reduction of the carrying amount of the notes. During the second quarter of 1999, the Company entered into a nonbinding letter of intent with a third party to dispose of this asset for an amount in excess of the carrying value. During the third quarter of 1999, the third party elected to not proceed with the transaction. Accordingly, the Company recorded a $2,834,000 write-down to reflect the asset at its estimated recoverable value upon disposal. The Company had previously recorded impairment on this note of $200,000 in the first quarter of 1999 (Note 11). In December 1999, the Company entered into a purchase and sale agreement, as amended, to sell the mill, provided the purchaser received certain assurances by January 31, 2000 from the Maine Department of Environmental Protection that Tree-Free's permits to operate the mill would be transferred to the Buyer. Those assurances were not received by January 31, 2000, and the purchase agreement subsequently lapsed. The Buyer continues to pursue an application to transfer the Tree-Free permits and has indicated to the Company that it intends to purchase the mill if the necessary permits are received.

5. Employee Benefit Plans

Stock-based Compensation Plans

Stock Option Plans

The Company maintains stock-based compensation plans for its key employees, directors, and others. Two of these plans permit the grant of nonqualified and incentive stock options. A third plan permits the grant of a variety of stock and stock-based awards as determined by the human resources committee of the Company's Board of Directors (the Board Committee), including restricted stock, stock options, stock bonus shares, or performance-based shares. The option recipients and the terms of options granted under these plans are determined by the Board Committee. Generally, options granted to date are exercisable immediately, but are subject to certain transfer restrictions and the right of the Company to repurchase shares issued upon exercise of the options at the exercise price, upon certain events. The restrictions and repurchase rights generally lapse ratably over a one- to ten-year period, depending on the term of the option, which may range from five- to twelve years. In addition, under certain options, shares acquired upon exercise are restricted from resale until retirement or other events. Nonqualified options may be granted at any price determined by the Board Committee, although incentive stock options must be granted at not less than the fair market value of the Company's stock on the date of grant. To date, all options have been granted at fair market value. The Company also has a directors' stock option plan that provides for the grant of stock options to outside directors pursuant to a formula approved by the Company's shareholders. Options awarded under this plan are exercisable six months after the date of grant and generally expire three or seven years after the date of grant. In addition to the Company's stock-based compensation plans, certain officers and key employees may also participate in the stock-based compensation plans of Thermo Electron.

In November 1998, the Company's employees, excluding its officers and directors, were offered the opportunity to exchange previously granted options to purchase shares of Company common stock for an amount of options equal to half of the number of options previously held, exercisable at a price equal to the fair market value at the time of the exchange offer. Holders of options to acquire 690,000 shares at a weighted average exercise price of $10.68 per share elected to participate in this exchange and, as a result, received options to purchase 345,000 shares of Company common stock at $5.63 per share, which are included in the 1998 grants in the table below. The other terms of the new options are the same as the exchanged options except that the holders may not sell shares purchased pursuant to such new options for six months from the exchange date. The options exchanged were canceled by the Company.

In January 1999, the Company awarded 11,900 shares of restricted Company common stock to certain key employees. The shares had an aggregate value of $91,000 and vest three years from the date of award, assuming continued employment, with certain exceptions. The Company has recorded the fair value of the restricted stock as deferred compensation in the accompanying balance sheet and is amortizing such amount over the vesting period.

A summary of the Company's stock option activity is as follows:

	1999		1998		1997	
(Shares in thousands)	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Options Outstanding, Beginning of Year	3,489	$ 6.00	3,988	$ 6.24	3,570	$4.81
Granted	161	7.30	957	6.82	845	11.00
Exercised	(539)	3.08	(646)	3.11	(396)	3.21
Forfeited	(56)	6.55	(120)	9.23	(31)	9.85

Canceled due to exchange	-	-	(690)	10.68	-	-
Options Outstanding, End of Year	3,055	$ 6.57	3,489	$ 6.00	3,988	$6.24
Options Exercisable	3,055	$ 6.57	3,486	$ 6.00	3,988	$6.24
Options Available for Grant	1,332		1,449		1,596	

A summary of the status of the Company's stock options at January 1, 2000, is as follows:

	Options Outstanding and Exercisable		
Range of Exercise Prices	Number of Shares (In thousands)	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
$ 3.00 - $ 5.83	1,216	3.6 years	$ 4.31
5.84 - 8.67	1,289	4.6 years	6.65
8.68 - 11.51	520	6.7 years	11.22
11.52 - 14.32	30	8.1 years	14.32
$ 3.00 - $ 14.32	3,055	4.6 years	$ 6.57

Employee Stock Purchase Program

Substantially all of the Company's full-time U.S. employees are eligible to participate in an employee stock purchase program sponsored by the Company and Thermo Electron. Under this program, shares of the Company's and Thermo Electron's common stock may be purchased at 85% of the lower of the fair market value at the beginning or end of the period, and the shares purchased are subject to a one-year resale restriction. Prior to the 1998 program year, the applicable shares of common stock could be purchased at the end of a 12-month period at 95% of the fair market value at the beginning of the period, and the shares purchased were subject to a six-month resale restriction. Shares are purchased through payroll deductions of up to 10% of each participating employee's gross wages. During 1999 and 1997, the Company issued 18,000 shares and 29,000 shares, respectively, of its common stock under this program. No shares of Company common stock were issued under this program during 1998.

5. Employee Benefit Plans (continued)

Pro Forma Stock-based Compensation Expense

In October 1995, the Financial Accounting Standards Board issued SFAS No. 123, "Accounting for Stock-based Compensation," which sets forth a fair-value based method of recognizing stock-based compensation expense. As permitted by SFAS No. 123, the Company has elected to continue to apply APB No. 25 to account for its stock-based compensation plans. Had compensation cost for awards granted after 1994 under the Company's stock-based compensation plans been determined based on the fair value at the grant dates consistent with the method set forth under SFAS No. 123, the effect on the Company's net income and earnings per share would have been as follows:

(In thousands except per share amounts)	1999	1998	1997
Net Income:			
As reported	$17,778	$17,995	$16,426
Pro forma	16,265	16,668	15,552
Basic Earnings per Share:			
As reported	.29	.29	.27
Pro forma	.27	.27	.25
Diluted Earnings per Share:			
As reported	.29	.29	.26
Pro forma	.26	.27	.25

Because the method prescribed by SFAS No. 123 has not been applied to options granted prior to January 1, 1995, the resulting pro forma compensation expense may not be representative of the amount to be expected in future years. Pro forma compensation expense for options granted is reflected over the vesting period; therefore, future pro forma compensation expense may be greater as additional options are granted.

The weighted average fair value per share of options granted was $2.69, $2.32, and $5.25 in 1999, 1998, and 1997, respectively. The fair value of each option grant was estimated on the grant date using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	1999	1998	1997
Volatility	39%	35%	35%
Risk-free Interest Rate	5.6%	4.6%	6.6%
Expected Life of Options	3.8 years	4.2 years	6.4 years

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, option-pricing models require the input of highly subjective assumptions including expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

401(k) Savings Plan

The majority of the Company's domestic subsidiaries participate in Thermo Electron's 401(k) savings plan. Contributions to the plan are made by both the employee and the Company. Company contributions are based upon the level of employee contributions. For this plan, the Company contributed and charged to expense $761,000, $974,000, and $719,000 in 1999, 1998, and 1997, respectively.

5. Employee Benefit Plans (continued)

Profit-sharing Plans

One of the Company's domestic subsidiaries has adopted a profit-sharing plan under which the Company annually contributes 10% of the subsidiary's net income before profit-sharing expense. All contributions are immediately vested. In addition, one of the Company's foreign subsidiaries maintains a state-mandated profit-sharing plan. Under the state-mandated plan, the Company contributes 0-11% of the subsidiary's net profit after taxes reduced by 5% of its shareholders' investment. For these plans, the Company contributed and charged to expense $959,000, $1,119,000, and $1,125,000 in 1999, 1998, and 1997, respectively.

Other Retirement Plans

Certain of the Company's subsidiaries offer other retirement plans. The majority of these subsidiaries offer defined contribution plans. Company contributions to these plans are based on formulas determined by the Company. For these plans, the Company contributed and charged to expense $779,000, $1,285,000, and $1,636,000 in 1999, 1998, and 1997, respectively.

6. Common Stock

At January 1, 2000, the Company had reserved 17,747,978 unissued shares of its common stock for possible issuance under stock-based compensation plans and for issuance upon possible conversion of the Company's subordinated convertible debentures.

7. Income Taxes

The components of income before provision for income taxes and minority interest are as follows:

(In thousands)	1999	1998	1997
Domestic	$21,802	$ 19,751	$17,017
Foreign	8,749	11,145	11,409
	$30,551	$ 30,896	$28,426

7. Income Taxes (continued)

The components of the provision for income taxes are as follows:

(In thousands)	1999	1998	1997
Currently Payable:			
Federal	$ 5,870	$ 4,491	$ 3,624
Foreign	3,409	4,282	4,367
State	1,001	1,039	1,044
	10,280	9,812	9,035
Net Deferred (Prepaid):			
Federal	1,600	1,939	1,852
Foreign	(353)	(71)	(338)
State	325	222	462
	1,572	2,090	1,976
	$11,852	$ 11,902	$11,011

The Company receives a tax deduction upon exercise of nonqualified stock options by employees for the difference between the exercise price and the market price of the Company's common stock on the date of exercise. The provision for income taxes that is currently payable does not reflect $513,000, $1,267,000, and $363,000 of such benefits from exercises of stock options that have been allocated to capital in excess of par value in 1999, 1998, and 1997, respectively.

The provision for income taxes in the accompanying statement of income differs from the provision calculated by applying the statutory federal income tax rate of 35% to income before provision for income taxes and minority interest due to the following:

(In thousands)	1999	1998	1997
Provision for Income Taxes at Statutory Rate	$10,693	$ 10,814	$ 9,949
Increases (Decreases) Resulting From:			
State income taxes, net of federal tax	805	820	980
Foreign tax rate and tax regulation differential	(227)	310	36
Nondeductible expenses	253	178	163
Other	328	(220)	(117)
	$11,852	$ 11,902	$11,011

7. Income Taxes (continued)

Prepaid income taxes and deferred income taxes in the accompanying balance sheet consist of the following:

(In thousands)	1999	1998
Deferred Tax Asset:		
Reserves and accruals	$ 3,082	$5,076
Inventory basis difference	1,243	1,439
Accrued compensation	429	193
Allowance for doubtful accounts	128	77
Other	14	21
	$ 4,896	$6,806

Deferred Income Taxes, Net:		
Amortization of intangible assets	$ 3,203	$3,183
Depreciation	980	663
Other	742	633
	$ 4,925	$4,479

The Company has not recognized a deferred tax liability for the difference between the book basis and the tax basis of its investment in the stock of its domestic subsidiaries (such difference relates primarily to unremitted earnings by subsidiaries) because it does not expect this basis difference to become subject to tax at the parent level. The Company believes it can implement certain tax strategies to recover its investment in its domestic subsidiaries tax free.

A provision has not been made for U.S. or additional foreign taxes on $66.5 million of undistributed earnings of foreign subsidiaries that could be subject to tax if remitted to the U.S. because the Company plans to keep these amounts permanently reinvested overseas. The Company believes that any additional U.S. tax liability due upon remittance of such earnings would be immaterial due to available U.S. foreign tax credits.

8. Long-term Obligations

In connection with the May 1999 acquisition of Arcline Products, the Company agreed to pay $2,000,000 in equal annual installments over five years. The liability was initially recorded at its net present value of $1,730,000.

In connection with the acquisition of Thermo Black Clawson, the Company borrowed $110,000,000 from Thermo Electron in May 1997. The promissory note bore interest at the 90-day Commercial Paper Composite Rate plus 25 basis points. In July 1997, the Company issued and sold at par $153,000,000 principal amount of 4 1/2% subordinated convertible debentures due 2004 for net proceeds of approximately $149,800,000. The debentures are convertible into shares of the Company's common stock at a conversion price of $12.10 per share and are guaranteed on a subordinated basis by Thermo Electron. In July 1997, the Company repaid the $110,000,000 promissory note due to Thermo Electron with a portion of the net proceeds from the sale of subordinated convertible debentures.

See Note 12 for fair value information pertaining to the Company's long-term obligations.

9. Related-party Transactions

Corporate Services Agreement

The Company and Thermo Electron have a corporate services agreement under which Thermo Electron's corporate staff provides certain administrative services, including certain legal advice and services, risk management, certain employee benefit administration, tax advice and preparation of tax returns, centralized cash management, and certain financial and other services, for which the Company pays Thermo Electron annually an amount equal to 0.8% of the Company's revenues. The Company paid an amount equal to 0.8% and 1.0% of the Company's revenues in 1998 and 1997, respectively. For these services, the Company was charged $1,824,000, $1,979,000, and $2,396,000 in 1999, 1998, and 1997, respectively. The fee is reviewed and adjusted annually by mutual agreement of the parties. Management believes that the service fee charged by Thermo Electron is reasonable and that such fees are representative of the expenses the Company would have incurred on a stand-alone basis. The corporate services agreement is renewed annually but can be terminated upon 30 days' prior notice by the Company or upon the Company's withdrawal from the Thermo Electron Corporate Charter (the Thermo Electron Corporate Charter defines the relationship among Thermo Electron and its majority-owned subsidiaries). For additional items such as employee benefit plans, insurance coverage, and other identifiable costs, Thermo Electron charges the Company based upon costs attributable to the Company.

Cash Management

The Company invests excess cash in arrangements with Thermo Electron as discussed in Note 1.

10. Commitments and Contingencies

Operating Leases

The Company occupies office and operating facilities under various operating leases. The accompanying statement of income includes expenses from operating leases of $1,767,000, $1,862,000, and $1,998,000 in 1999, 1998, and 1997, respectively. The future minimum payments due under noncancelable operating leases as of January 1, 2000, are $1,095,000 in 2000; $669,000 in 2001; $386,000 in 2002; $177,000 in 2003; $147,000 in 2004; and $67,000 in 2005 and thereafter. Total future minimum lease payments are $2,541,000.

Long-term Contract

In December 1997, Thermo Fibergen entered into a ten-year contract with a paper mill to provide fiber-recovery and water-clarification services to the mill, and also entered into an engineering, procurement, and construction contract for the construction of the facility to provide such services. In July 1998, Thermo Fibergen completed construction of, and began operating, the fiber-recovery and water-clarification facility, providing clean water and long fiber to the mill. In addition, Thermo Fibergen and the paper mill have entered into lease and services agreements, under which it leases land from the paper mill for a nominal fee and the paper mill provides certain utilities and services. Thermo Fibergen provides the paper mill with fiber-recovery and water-clarification services for established fixed fees, subject to certain adjustments and increases upon the attainment of certain performance goals by Thermo Fibergen. The contract may be canceled by either party within six months after the end of the fourth year of the contract, or thereafter by the paper mill with one year's notice, if certain benefits or profitability levels are not achieved. If either party elects to terminate the agreement, the paper mill will be required to purchase the facility from Thermo Fibergen at its net book value.

Contingencies

In the ordinary course of business, the Company is at times required to issue limited performance guarantees relating to its equipment and systems. The Company typically limits its liability under these guarantees to amounts that would not exceed the cost of the equipment. The Company believes that it has adequate reserves for any potential liability in connection with such guarantees.

11. Restructuring Costs and Unusual Items

During 1999, the Company recorded restructuring costs and unusual items of $6,152,000. Restructuring costs of $2,257,000, which were accounted for in accordance with EITF 94-3, include severance costs of $1,283,000 for 24 employees across all functions at the Company's E. & M. Lamort, S.A. subsidiary, all of whom were terminated as of January 1, 2000, and $974,000 to terminate distributor agreements. These actions were taken in efforts to improve profitability and were in response to a cyclical downturn in demand at this business unit. Unusual items of $3,895,000 include $3,239,000 for asset write-downs, consisting of $3,034,000 for the write-down of a note receivable secured by a tissue mill (Note 4) and $205,000 for impairment of a building in Ohio held for disposal, which was sold in July 1999; $526,000 for the expected settlement of a contractual dispute; and $130,000 for facility-closure costs.

During 1997, the Company recorded restructuring costs of $1,063,000 relating to the consolidation of operations at its Fiberprep, Inc. subsidiary and Lamort Paper Services Ltd. subsidiary (a subsidiary of E&M Lamort, S.A. located in the United Kingdom) into the operations of Thermo Black Clawson. The restructuring charges, which were accounted for in accordance with EITF 94-3, related primarily to severance for 34 employees, whose employment was terminated during 1997, and abandoned-facility payments for a sales and administration office located in Massachusetts.

A summary of the changes in accrued restructuring costs, which are included in other accrued expenses in the accompanying balance sheet, follows:

(In thousands)	Severance	Other	Total
Balance at December 28, 1996	$ -	$ -	$ -
Provision charged to expense	523	540	1,063
Usage	(523)	(343)	(866)
Balance at January 3, 1998	-	197	197
Usage	-	(163)	(163)
Balance at January 2, 1999	-	34	34
Provision charged to expense	1,283	974	2,257
Usage	(1,117)	(239)	(1,356)
Currency translation	(151)	(115)	(266)
Balance at January 1, 2000	$ 15	$ 654	$ 669

The Company expects to pay the remaining accrued restructuring costs in the first half of 2000.

12. Fair Value of Financial Instruments

The Company's financial instruments consist mainly of cash and cash equivalents, advance to affiliate, available-for-sale investments, accounts receivable, current maturity of note payable, accounts payable, common stock of subsidiary subject to redemption, due to parent company and affiliated companies, subordinated convertible debentures, note payable, and forward foreign exchange contracts. The carrying amounts of accounts receivable, current maturity of note payable, accounts payable, and due to parent company and affiliated companies approximate fair value due to their short-term nature.

Available-for-sale investments are carried at fair value in the accompanying balance sheet. The fair values were determined based on quoted market prices. See Note 2 for fair value information pertaining to these financial instruments.

The carrying amount and fair value of the Company's subordinated convertible debentures, common stock of subsidiary subject to redemption, and off-balance-sheet financial instruments are as follows:

	1999		1998	
(In thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Subordinated Convertible Debentures	$153,000	$124,710	$153,000	$130,433
Common Stock of Subsidiary Subject to Redemption	$ 49,160	$ 51,011	$ 53,801	$ 53,626
Off-balance-sheet Financial Instruments:				
Forward foreign exchange contracts payable		$ 35		$ 1

The fair value of the Company's subordinated convertible debentures and common stock of subsidiary subject to redemption was determined based on quoted market prices.

The notional amounts of forward foreign exchange contracts outstanding totaled $4,080,000 and $3,284,000 at year-end 1999 and 1998, respectively. The fair value of such contracts is the estimated amount that the Company would pay upon termination of the contracts, taking into account the change in foreign exchange rates.

13. Business Segment and Geographical Information

The Company organizes and manages its business by individual functional operating entity. The Company has combined its operating entities into three segments: Pulp and Papermaking Equipment and Systems, Dryers and

Pollution-control Equipment, and Water- and Fiber-recovery Services and Products. In classifying operational entities into a particular segment, the Company aggregated businesses with similar economic characteristics, products and services, production processes, customers, and methods of distribution.

The Company's Pulp and Papermaking Equipment and Systems segment designs and manufactures processing machinery, 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; accessory equipment and related consumables important to the efficient operation of papermaking machines; and water-management systems essential for draining, purifying, and recycling process water. Revenues from the stock-preparation equipment product line were $98,929,000, $107,518,000, and $88,848,000 in 1999, 1998, and 1997, respectively. Revenues from the accessories product line were $74,839,000, $77,817,000, and $82,970,000 in 1999, 1998, and 1997, respectively. Revenues from the water-management product line were $42,611,000, $36,908,000, and $44,106,000 in 1999, 1998, and 1997, respectively.

The Dryers and Pollution-control Equipment segment, which consisted of the Company's Thermo Wisconsin, Inc. subsidiary, manufactured and marketed dryers and pollution-control equipment for the printing, papermaking, and converting industries. In February 1999, the Company sold its Thermo Wisconsin subsidiary (Note 3).

The Water- and Fiber-recovery Services and Products segment, which consists of the Company's Thermo Fibergen subsidiary, owns and operates a plant that helps the host mill close the loop in its water and solids systems on a long-term contract basis. The plant, which the Company began operating in July 1998 (Note 10), cleans and recycles water and long fiber for reuse in the papermaking process. In addition, through its GranTek Inc. subsidiary, Thermo Fibergen employs patented technology to produce biodegradable absorbing granules from papermaking byproducts. These granules are used as agricultural carriers, oil and grease absorbents, cat box fillers, and animal bedding. In addition, Thermo Fibergen plans to develop, produce, and market fiber-based composites through its majority-owned NEXT Fiber Products subsidiary (Note 3).

(In thousands)	1999	1998	1997
Business Segment Information			
Revenues:			
Pulp and Papermaking Equipment and Systems (a)	$217,724	$223,799	$217,270
Dryers and Pollution-control Equipment (b)	1,802	19,513	19,724
Water- and Fiber-recovery Services and Products	8,579	5,276	4,836
Intersegment sales elimination (c)	(69)	(1,162)	(2,188)
	$228,036	$247,426	$239,642
Income Before Provision for Income Taxes and Minority Interest:			
Pulp and Papermaking Equipment and Systems (d)	$ 27,061	$ 33,937	$ 30,060
Dryers and Pollution-control Equipment (b)(e)	11,609	2,736	1,594
Water- and Fiber-recovery Services and Products	(1,010)	(2,468)	(2,424)
Corporate (f)	(8,138)	(3,857)	(3,299)
Total operating income	29,522	30,348	25,931
Interest income, net	1,029	548	2,495
	$ 30,551	$ 30,896	$ 28,426
Total Assets:			
Pulp and Papermaking Equipment and Systems	$282,837	$277,688	$276,784
Dryers and Pollution-control Equipment (b)	-	5,390	7,155
Water- and Fiber-recovery Services and Products	72,438	71,116	70,164
Corporate (g)	87,302	72,906	64,835
	$442,577	$427,100	$418,938
Depreciation and Amortization:			
Pulp and Papermaking Equipment and Systems	$ 7,502	$ 7,188	$ 5,921
Dryers and Pollution-control Equipment (b)	16	153	133
Water- and Fiber-recovery Services and Products	1,410	1,151	1,204

	1999	1998	1997
	$ 8,928	$ 8,492	$ 7,258
Capital Expenditures:			
Pulp and Papermaking Equipment and Systems	$ 2,964	$ 3,442	$ 3,215
Dryers and Pollution-control Equipment (b)	-	197	201
Water- and Fiber-recovery Services and Products	1,110	4,134	377
	$ 4,074	$ 7,773	$ 3,793

13. Business Segment and Geographical Information (continued)

(In thousands)	1999	1998	1997
Geographical Information			
Revenues (h):			
United States	$142,800	$153,658	$150,998
France	60,682	65,308	52,416
Other	33,477	39,636	47,266
Transfers among geographic areas (c)	(8,923)	(11,176)	(11,038)
	$228,036	$247,426	$239,642
Long-lived Assets (i):			
United States	$ 23,948	$ 27,232	$ 23,119
France	4,483	5,381	6,139
Other	4,711	4,844	5,304
	$ 33,142	$ 37,457	$ 34,562
Export Revenues Included in United States Revenues Above (j)	$ 23,366	$ 24,244	$ 20,140

(a) Includes intersegment sales of $0.5 million and $0.2 million in 1998 and 1997, respectively.
(b) Includes intersegment sales of $0.6 million and $2.0 million in 1998 and 1997, respectively. The Company sold this segment in February 1999.
(c) Intersegment sales and transfers among geographic areas are accounted for at prices that are representative of transactions with unaffiliated parties.
(d) Includes $3.1 million of restructuring costs and unusual items in 1999.
(e) Includes $11.2 million of gain on sale of business in 1999.
(f) Includes $3.0 million of unusual items in 1999 for the write-down of a note receivable. Also includes related carrying costs of the note receivable and underlying security of $1.4 million and $0.9 million in 1999 and 1998, respectively.
(g) Primarily amounts invested in cash management arrangements with Thermo Electron.
(h) Revenues are attributed to countries based on selling location.
(i) Includes property, plant, and equipment, net, and other long-term tangible assets.
(j) In general, export revenues are denominated in U.S. dollars.

14. Earnings per Share

Basic and diluted earnings per share were calculated as follows:

(In thousands except per share amounts)	1999	1998	1997
Basic			
Net Income	$17,778	$ 17,995	$16,426
Weighted Average Shares	61,186	61,612	61,384

Basic Earnings per Share	$ .29	$ .29	$ .27
Diluted			
Net Income	$17,778	$ 17,995	$16,426
Effect of:			
Convertible obligations	-	-	188
Majority-owned subsidiary's dilutive securities	(48)	(33)	(76)
Income Available to Common Shareholders, as Adjusted	$17,730	$ 17,962	$16,538
Weighted Average Shares	61,186	61,612	61,384
Effect of:			
Convertible obligations	-	-	1,126
Stock options	373	741	1,103
Weighted Average Shares, as Adjusted	61,559	62,353	63,613
Diluted Earnings per Share	$ .29	$ .29	$ .26

Options to purchase 908,000, 601,000, and 663,000 shares of common stock were not included in the computation of diluted earnings per share for 1999, 1998, and 1997, respectively, because the options' exercise prices were greater than the average market price for the common stock and their effect would have been antidilutive.

In addition, the computation of diluted earnings per share for 1999 and 1998 excludes the effect of assuming the conversion of the Company's $153.0 million principal amount of 4 1/2% subordinated convertible debentures, convertible at $12.10 per share, because the effect would be antidilutive.

15. Comprehensive Income

Comprehensive income combines net income and "other comprehensive items," which represent certain amounts that are reported as components of shareholders' investment in the accompanying balance sheet, including foreign currency translation adjustments and unrealized net of tax gains and losses on available-for-sale investments.

15. Comprehensive Income (continued)

Accumulated other comprehensive items in the accompanying consolidated balance sheet consist of the following:

(In thousands)	1999	1998
Cumulative Translation Adjustment	$(11,009)	$ (7,730)
Net Unrealized Loss on Available-for-sale Investments	(42)	(3)
	$(11,051)	$ (7,733)

16. Unaudited Quarterly Information

(In thousands except per share amounts)

1999	First (a)	Second	Third (b)	Fourth
Revenues	$60,223	$53,549	$ 53,075	$61,189
Gross Profit	23,436	22,064	21,898	25,745
Net Income	8,228	3,011	1,568	4,971
Earnings per Share:				
Basic	.13	.05	.03	.08
Diluted	.12	.05	.03	.08

1998	First	Second	Third	Fourth
Revenues	$62,330	$63,583	$59,678	$61,835
Gross Profit	25,278	26,119	23,976	24,791
Net Income	4,251	5,328	4,157	4,259
Earnings per Share:				
Basic	.07	.09	.07	.07
Diluted	.07	.08	.07	.07

(a) Reflects an $11.2 million gain on the February 1999 disposition of Thermo Wisconsin, Inc. and restructuring costs and unusual items of $3.4 million.
(b) Reflects restructuring costs of $2.8 million.

17. Subsequent Event

On January 31, 2000, Thermo Electron announced that, as part of a major reorganization plan, it plans to spin off its equity interest in the Company as a dividend to Thermo Electron shareholders. The distribution is subject to receipt of a favorable ruling from the Internal Revenue Service regarding the tax treatment of the spin off, and other customary conditions. If these conditions are met, the Company expects the transaction to occur in late 2000 or in early 2001. Following the spin off, Thermo Electron will continue to guarantee the Company's $153,000,000 principal amount of 4 1/2% subordinated convertible debentures due 2004, on a subordinated basis, and Thermo Fibergen's obligation under its redemption rights.

Report of Independent Public Accountants

To the Shareholders and Board of Directors of Thermo Fibertek Inc.:

We have audited the accompanying consolidated balance sheet of Thermo Fibertek Inc. (a Delaware corporation and 91%-owned subsidiary of Thermo Electron Corporation) and subsidiaries as of January 1, 2000, and January 2, 1999, and the related consolidated statements of income, comprehensive income and shareholders' investment, and cash flows for each of the three years in the period ended January 1, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Thermo Fibertek Inc. and subsidiaries as of January 1, 2000 and January 2, 1999, and the results of their operations and their cash flows for each of the three years in the period ended January 1, 2000, in conformity with generally accepted accounting principles.

Arthur Andersen LLP

Boston, Massachusetts

February 9, 2000

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 the results of the Company to differ materially from those indicated by such forward-looking statements, including those detailed immediately after this Management's Discussion and Analysis of Financial Condition and Results of Operations under the heading "Forward-looking Statements."

Overview

The Company operates in two segments: Pulp and Papermaking Equipment and Systems and Water- and Fiber-recovery Services and Products. The Company's Pulp and Papermaking Equipment and Systems (Papermaking Equipment) segment designs and manufactures stock-preparation equipment, 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; accessory equipment and related consumables important to the efficient operation of papermaking machines; and water-management systems essential for draining, purifying, and recycling process water. In May 1999, this segment acquired the outstanding stock of Arcline Products, a manufacturer of shower and doctor oscillation systems (Note 3).

The Water- and Fiber-recovery Services and Products segment, which consists of the Company's Thermo Fibergen subsidiary, owns and operates a plant that helps the host mill close the loop in its water and solids systems on a long-term contract basis. The plant, which the Company began operating in July 1998, cleans and recycles water and long fiber for reuse in the papermaking process. In addition, through its GranTek subsidiary, Thermo Fibergen employs patented technology to produce biodegradable absorbing granules from papermaking byproducts. These granules are used as agricultural carriers, oil and grease absorbents, cat box fillers, and animal bedding. In October 1999, Thermo Fibergen established a subsidiary that plans to develop, produce, and market fiber-based composites.

Prior to February 1999, the Company also operated in the Dryers and Pollution-control Equipment segment, which consisted of the Company's Thermo Wisconsin Inc. subsidiary and manufactured and marketed dryers and pollution-control equipment for the printing, papermaking, and converting industries. In February 1999, the Company sold its Thermo Wisconsin subsidiary for $13.6 million in cash (Note 3). Thermo Wisconsin's unaudited revenues to external customers and net income for fiscal 1998 were $18.9 million and $1.5 million, respectively.

The Company's manufacturing facilities are principally located in the United States and France. The manufacturing facility in France is located at the Company's E. & M. Lamort, S.A. subsidiary, which manufactures stock-preparation equipment, accessories, and water-management systems.

During 1999, approximately 48% of the Company's sales were to customers outside the United States, principally in Europe. The Company generally seeks to charge its customers in the same currency as its operating costs. However, the Company's financial performance and competitive position can be affected by currency exchange rate fluctuations affecting the relationship between the U.S. dollar and foreign currencies. The Company reduces its exposure to currency fluctuations through the use of forward contracts. The Company may enter into forward contracts to hedge certain firm purchase and sale commitments denominated in currencies other than its subsidiaries' local currencies. These contracts principally hedge transactions denominated in U.S. and Canadian dollars. The purpose of the Company's foreign currency hedging activities is to protect the Company's local currency cash flows related to these commitments from fluctuations in foreign exchange rates. Because the Company's forward contracts are entered into as hedges against existing foreign currency exposures, there generally is no effect on the income statement since gains or losses on the customer contract offset gains or losses on the forward contract.

Overview (continued)

The Company's products are primarily sold to the paper industry. Generally, the financial condition of the paper industry corresponds to changes in the general economy and to a number of other factors, including paper and pulp production capacity. In early 1996, the worldwide pulp and paper industry entered a severe downcycle, which began adversely affecting the Company's business in the second half of 1996. These adverse effects continued through the first half of 1999. A number of recent signs suggest improvement beginning in the second half of 1999, particularly in North America. In general, prices for most paper grades are increasing, and operating rates for paper companies in North America are at a relatively high percentage of capacity. The financial condition of many pulp and paper companies appears to be improving steadily, which could lead to increased expenditures in capital equipment. The timing of the recovery of the financial condition of the paper industry cannot be predicted, however.

Results of Operations

1999 Compared With 1998

Excluding the results of Thermo Wisconsin, which was sold in February 1999, revenues decreased to $226.3 million in 1999 from $228.5 million in 1998. Thermo Wisconsin's revenues to external customers were $1.8 million and $18.9 million in 1999 and 1998, respectively. Arcline Products, which was acquired in May 1999, added revenues of $1.0 million during the period. The inclusion for the full 1999 period of results from Goslin Birmingham, which was acquired in July 1998, added incremental revenues of $3.5 million. The unfavorable effects of currency translation due to the strengthening in value of the U.S. dollar relative to foreign currencies in countries in which the Company operates decreased revenues at the Papermaking Equipment segment by $2.1 million in 1999. Excluding the results of acquisitions and the effect of currency translation, revenues in the Company's Papermaking Equipment segment decreased $7.9 million, primarily due to a $10.8 million decrease in revenues from the stock-preparation equipment product line, resulting principally from market weakness in Europe, and a $2.1 million decrease in the accessories product line, principally in North America. These decreases were offset in part by a $5.1 million increase in revenues from that segment's water-management product line, principally in North America. The Water- and Fiber-recovery Services and Products segment revenues increased $3.3 million due to a $1.7 million increase in demand for cellulose-based products, primarily from its two largest customers; a $0.8 million increase in sales of its cat box filler product, which was introduced in the third quarter of 1998; and the inclusion of revenues for the full 1999 period from its fiber-recovery and water-clarification facility, which began operations in July 1998 and added $0.8 million of additional revenues in 1999.

The gross profit margin was relatively unchanged at 40.8% in 1999, compared with 40.5% in 1998.

Selling, general, and administrative expenses as a percentage of revenues increased to 27% in 1999 from 26% in 1998, primarily due to the effect of the sale of Thermo Wisconsin, for which such costs represented 15% of its revenues in 1998.

Research and development expenses increased slightly to $7.3 million in 1999 from $7.0 million in 1998, primarily due to increased expenditures in the Papermaking Equipment segment.

During the first quarter of 1999, the Company sold its Thermo Wisconsin subsidiary for $13.6 million in cash, resulting in a pretax gain of $11.2 million (Note 3).

Restructuring costs and unusual items of $6.2 million in 1999 represents write-downs for impairment of assets, severance costs, termination of distributor agreements, the expected settlement of a contractual dispute, and facility-closure costs (Note 11). The severance actions are expected to result in aggregate annual cost savings of $1.2 million beginning in 2000.

Interest income increased to $8.5 million in 1999 from $8.0 million in 1998 due to higher average invested balances as a result of cash received from the sale of Thermo Wisconsin. Interest expense was relatively unchanged in 1999 and 1998.

1999 Compared With 1998 (continued)

The effective tax rate was unchanged at 39% in 1999 and 1998. The effective tax rate exceeded the statutory federal income tax rate primarily due to the impact of state income taxes.

Minority interest expense primarily represents accretion of Thermo Fibergen's common stock subject to redemption.

In connection with a proposed engineering, procurement, and construction project, the Company loaned $6.0 million to Tree-Free Fiber Company, LLC (Tree-Free) during 1996. This project was delayed due to weakness in pulp prices, and will not proceed as a result of Tree-Free's insolvency. Tree-Free was unable to repay the note upon its original maturity. The note is secured by pari-passu liens on a tissue mill in Maine and related assets. In December 1997, the Superior Court of Maine appointed a receiver to preserve and protect the collateral for the loans made by the Company and other lenders to Tree-Free. In May 1998, the Company purchased an assignment of Tree-Free's secured indebtedness to the other pari-passu lender for $2.9 million. In June 1998, the Company was the successful bidder at a foreclosure sale of the tissue mill and executed a purchase and sale agreement. In October 1998, the stock of a mill located in Mexico, which had also secured the note, was sold and the proceeds of $1.3 million were paid to the Company and recorded as a reduction of the carrying amount of the notes. During 1999, the Company recorded a $3.0 million write-down to reflect the asset at its estimated recoverable value (Note 4). In December 1999, the Company entered into a purchase and sale agreement, as amended, to sell the mill, provided the purchaser received certain assurances by January 31, 2000, from the Maine Department of Environmental Protection that Tree-Free's permits to operate the mill would be transferred to the Buyer. Those assurances were not received by January 31, 2000, and the purchase agreement subsequently lapsed. The Buyer continues to pursue an application to transfer the Tree-Free permits and has indicated to the Company that it intends to purchase the mill if the necessary permits are received.

1998 Compared With 1997

Revenues increased to $247.4 million in 1998 from $239.6 million in 1997, primarily due to an increase in revenues of $6.5 million in the Papermaking Equipment segment. The increase in revenues in the Papermaking Equipment segment was primarily due to an $18.9 million increase in revenues from the stock-preparation equipment product line, offset in part by decreases in revenues from the accessories and water-management product lines, primarily due to a decrease in demand, and the unfavorable effects of foreign currency translation. Revenues from the stock-preparation equipment product line increased principally due to a $14.0 million increase in revenues from Thermo Black Clawson, acquired in May 1997, due to its inclusion for the full twelve-month period in 1998, offset in part by a decrease in its revenues due to a decrease in demand in Asia, North America, and Europe. Unstable economic conditions in Asia during the year, and weakened currencies in that region, resulted in increased low-cost imports of pulp and paper in North America and Europe, resulting in reduced pricing. These factors also resulted in a decline in paper and pulp exports from North America and Europe to Asia. The economic conditions in Asia began to recover in 1999. The unfavorable effects of currency translation due to the strengthening of the U.S. dollar relative to foreign currencies in countries in which the Company operates decreased revenues by $2.4 million in 1998.

The gross profit margin increased to 40% in 1998 from 39% in 1997, primarily due an increase in gross profit margin in the Papermaking Equipment segment as a result of improvement at Thermo Black Clawson. Gross profit margins improved at Thermo Black Clawson principally as a result of a relative increase in sales of higher-margin spare parts.

Selling, general, and administrative expenses as a percentage of revenues were relatively unchanged at 25.6% in 1998, compared with 25.3% in 1997.

Research and development expenses were relatively unchanged at $7.0 million in 1998, compared with $6.8 million in 1997.

In 1998, the Company recorded gains of $0.5 million relating to the sale of real estate.

In 1997, restructuring costs of $1.1 million were recorded by the Papermaking Equipment segment, primarily for severance costs relating to the consolidation of the operations of two subsidiaries into the operations of Thermo Black Clawson (Note 11).

Interest income increased to $8.0 million in 1998 from $7.3 million in 1997, primarily due to an increase in average invested balances, offset in part by the effect of a decrease in interest rates in 1998. The increase in average invested balances principally related to the net proceeds from the sale of $153.0 million principal amount of 4 1/2% subordinated convertible debentures in July 1997, of which $103.4 million was used to finance the acquisition of Thermo Black Clawson (Note 8). Interest expense increased to $7.4 million in 1998 from $4.8 million in 1997, principally as a result of the July 1997 issuance of subordinated convertible debentures.

The effective tax rate was unchanged at 39% in 1998 and 1997. The effective tax rate exceeded the statutory federal income tax rate primarily due to the impact of state income taxes.

Minority interest expense primarily represents accretion of Thermo Fibergen's common stock subject to redemption.

Liquidity and Capital Resources

Consolidated working capital was $158.7 million at January 1, 2000, compared with $193.4 million at January 2, 1999. Working capital decreased $49.2 million due to the reclassification of common stock of subsidiary subject to redemption to current liabilities. Included in working capital are cash, cash equivalents, and available-for-sale investments of $85.7 million at January 1, 2000, compared with $163.7 million at January 2, 1999. Also, as of January 1, 2000, the Company had $93.8 million invested in an advance to affiliate. Prior to the use of new domestic cash management arrangements between the Company and Thermo Electron Corporation, which became effective June 1999, amounts invested with Thermo Electron were included in cash and cash equivalents. Of the total cash, cash equivalents, and available-for-sale investments, $46.5 million was held by Thermo Fibergen and the remainder was held by the Company and its wholly owned subsidiaries. Of the total advance to affiliate, $5.1 million was advanced by Thermo Fibergen, $7.1 million was advanced by the Company's Thermo Fiberprep subsidiary, and the balance was advanced by the Company. At January 1, 2000, $37.7 million of the Company's cash and cash equivalents was held by its foreign subsidiaries.

During 1999, $17.2 million of cash was provided by operating activities. The Company used $4.4 million of cash to fund an increase in accounts receivable, primarily due to slower collections in international markets at the Company's Lamort subsidiary and increased sales in the water management product line in the fourth quarter of 1999 compared with the fourth quarter of 1998. In addition, the Company used $7.1 million to fund an increase in unbilled contract costs and fees, primarily due to the timing of billings for the stock-preparation product line.

During 1999, the Company's investing activities, excluding available-for-sale investments and advance to affiliate activity, provided $7.2 million of cash. The Company received proceeds of $13.6 million from the sale of Thermo Wisconsin and used $3.1 million, net of cash acquired, to purchase the assets of Arcline and certain capital equipment and technology (Note 3). In addition, the Company purchased property, plant, and equipment for $3.9 million and received a refund of $0.4 million related to the 1998 acquisition of Goslin Birmingham (Note 3).

During 1999, the Company's financing activities used $7.5 million of cash. The Company used $2.5 million to purchase Company common stock and Thermo Fibergen used $5.5 million to purchase its common stock. These purchases were made pursuant to authorizations by the Company's and Thermo Fibergen's Boards of Directors. The Company's and Thermo Fibergen's authorizations to purchase Company common stock, outstanding convertible debentures, or Thermo Fibergen common stock have expired.

Thermo Fibergen's common stock is subject to redemption in September 2000 or September 2001, the redemption value of which is $49.8 million.

At January 1, 2000, the Company had $66.5 million of undistributed foreign earnings that could be subject to tax if remitted to the U.S. The Company does not intend to repatriate undistributed foreign earnings into the U.S., and does not expect that this will have a material adverse effect on the Company's current liquidity.

During 2000, the Company plans to make expenditures for property, plant, and equipment of approximately $7 million. In addition, Thermo Fibergen may, in the future, make capital expenditures for the construction of additional fiber-recovery and water-clarification facilities. Construction of such facilities is dependent upon Thermo Fibergen entering into long-term contracts with pulp and paper mills, under which Thermo Fibergen will charge fees to process the mills' papermaking byproducts. There is no assurance that Thermo Fibergen will be able to obtain such additional contracts. In addition, the Company's liquidity may be adversely affected if the redemption of Thermo Fibergen's common stock occurs in the third quarter of 2000. The Company believes that its existing resources are sufficient to meet the capital requirements of its existing operations for the foreseeable future.

Market Risk

The Company is exposed to market risk from changes in interest rates, equity prices, and foreign currency exchange rates, which could affect its future results of operations and financial condition. The Company manages its exposure to these risks through its regular operating and financing activities. Additionally, the Company uses short-term forward contracts to manage certain exposures to foreign currencies. The Company enters into forward foreign exchange contracts to hedge firm purchase and sale commitments denominated in currencies other than its subsidiaries' local currencies. The Company does not engage in extensive foreign currency hedging activities; however, the purpose of the Company's foreign currency hedging activities is to protect the Company's local currency cash flows related to these commitments from fluctuations in foreign exchange rates. The Company's forward foreign exchange contracts principally hedge transactions denominated in U.S. dollars, British pounds sterling, and Canadian dollars. Gains and losses arising from forward contracts are recognized as offsets to gains and losses resulting from the transactions being hedged. The Company does not enter into speculative foreign currency agreements.

Interest Rates

The Company's available-for-sale investments and subordinated convertible debentures are sensitive to changes in interest rates. Interest rate changes would result in a change in the fair value of these financial instruments due to the difference between the market interest rate and the rate at the date of purchase or issuance of the financial instrument. A 10% decrease in year-end 1999 and 1998 market interest rates would result in a negative impact of $4 million and $21 million, respectively, on the net fair value of the Company's interest-sensitive financial instruments.

The Company's cash, cash equivalents, advance to affiliate, and available-for-sale investments maturing within one year are sensitive to changes in interest rates. Interest rate changes would result in a change in interest income due to the difference between the current interest rates on cash and cash equivalents and the variable rate that these financial instruments may adjust to in the future. A 10% decrease in year-end 1999 and 1998 interest rates would result in a negative impact of $0.6 million and $0.4 million, respectively, on the Company's net income.

Equity Prices

The Company's subordinated convertible debentures are sensitive to fluctuations in the price of Company common stock into which the debentures are convertible. Changes in equity prices would result in changes in the fair value of the Company's subordinated convertible debentures due to the difference between the current market price and the market price at the date of issuance of the debentures. A 10% increase in the year-end 1999 and 1998 market equity prices would result in a negative impact of $3.0 million and $6.3 million, respectively, on the net fair value of the Company's subordinated convertible debentures.

The Company's common stock of subsidiary subject to redemption is sensitive to fluctuations in the price of Thermo Fibergen common stock. The holder of a Thermo Fibergen redemption right may require Thermo Fibergen to redeem one share of Thermo Fibergen common stock at $12.75 per share in September 2000 or September 2001. If Thermo Fibergen's common stock is trading on the open market at a price which is less than $12.75 per share in September 2001, the holders of redemption rights would more likely than not exercise their redemption rights. In the event all redemption rights are exercised, the Company may use up to $49.8 million in cash to settle the redemption obligation.

In addition, changes in equity prices would result in changes in the fair value of common stock of subsidiary subject to redemption due to the difference between the current market price and the price at the date of issuance of the underlying financial instruments, Thermo Fibergen common stock and redemption rights. Since the market price of Thermo Fibergen's redemption rights generally fluctuates in the opposite direction of fluctuations in the market price of Thermo Fibergen's common stock, the effect of a 10% increase in the market price of Thermo Fibergen common stock on the fair value of common stock of subsidiary subject to redemption would be mitigated in part by a decrease in the market price of the Thermo Fibergen redemption rights.

Foreign Currency Exchange Rates

The Company generally views its investment in foreign subsidiaries with a functional currency other than the Company's reporting currency as long-term. The Company's investment in foreign subsidiaries is sensitive to fluctuations in foreign currency exchange rates. The functional currencies of the Company's foreign subsidiaries are principally denominated in French francs, British pounds sterling, and Canadian dollars. The effect of a change in foreign exchange rates on the Company's net investment in foreign subsidiaries is reflected in the "Accumulated other comprehensive items" component of shareholders' investment. A 10% depreciation in year-end 1999 and 1998 functional currencies, relative to the U.S. dollar, would result in a $7.9 million reduction of shareholders' investment for each period.

The fair value of forward foreign exchange contracts is sensitive to changes in foreign currency exchange rates. The fair value of forward foreign exchange contracts is the estimated amount that the Company would pay or receive upon termination of the contract, taking into account the change in foreign currency exchange rates. A 10% depreciation in year-end 1999 and 1998 foreign currency exchange rates related to the Company's contracts would result in an increase in the unrealized loss on forward foreign exchange contracts of $0.2 million for each period. Since the Company uses forward foreign exchange contracts as hedges of firm purchase and sale commitments, the unrealized gain or loss on forward foreign currency exchange contracts resulting from changes in foreign currency exchange rates would be offset by corresponding changes in the fair value of the hedged items.

Year 2000

As of the date of this report, the Company has completed its year 2000 initiatives, which included: (i) testing and upgrading significant information technology systems and facilities; (ii) testing and developing upgrades, where necessary, for the Company's current products and certain discontinued products; (iii) assessing the year 2000 readiness of its key suppliers, vendors, and customers; and (iv) developing contingency plans.

As a result of completing these initiatives, the Company believes that all of its material information technology systems and critical non-information technology systems are year 2000 compliant. The Company believes that all of the material products that it currently manufactures and sells are year 2000 compliant or are not date sensitive. In addition, the Company is not aware of any significant supplier or vendor that has experienced material disruption due to year 2000 issues. The Company has also developed a contingency plan to allow its primary business operations to continue despite disruptions due to year 2000 problems, if any, that might yet arise in the future. The costs incurred to date by the Company in connection with the year 2000 issue have not been material.

While the Company to date has been successful in minimizing negative consequences arising from year 2000 issues, there can be no assurance that in the future the Company's business operations or financial condition may not be impacted by year 2000 problems, such as increased warranty claims, vendor and supplier disruptions, or litigation relating to year 2000 issues.

Forward-looking Statements

In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, the Company wishes to caution readers that the following important factors, among others, in some cases have affected, and in the future could affect, the Company's actual results and could cause its actual results in 2000 and beyond to differ materially from those expressed in any forward-looking statements made by, or on behalf of, the Company.

Dependence on Paper Industry and Pulp and Paper Prices. The Company's products are primarily sold to the paper industry. Generally, the financial condition of the paper industry corresponds to the condition of the general economy, as well as a number of other factors, including paper and pulp production capacity. The paper industry entered a severe downcycle in early 1996 and has only recently begun to recover. This cyclical downturn has adversely affected the Company's business. No assurance can be given that the financial condition of the paper industry will continue to improve in the near future.

Risks Associated with International Operations. During 1999, approximately 48% of the Company's sales were to customers outside the United States, principally in Europe. International revenues are subject to a number of risks, including the following: agreements may be difficult to enforce and receivables difficult to collect through a foreign country's legal system; foreign customers may have longer payment cycles; foreign countries may impose additional withholding taxes or otherwise tax the Company's foreign income, impose tariffs, or adopt other restrictions on foreign trade; U.S. export licenses may be difficult to obtain; and the protection of intellectual property in foreign countries may be more difficult to enforce. Although the Company seeks to charge its customers in the same currency as its operating costs, fluctuations in currency exchange rates may affect product demand and adversely affect the profitability in U.S. dollars of products provided by the Company in foreign markets where payment for the Company's products and services is made in the local currency. There can be no assurance that any of these factors will not have a material adverse impact on the Company's business and results of operations.

Competition. The Company encounters and expects to continue to encounter significant competition in each of its principal markets. The Company believes that the principal competitive factors affecting the markets for its products include quality, price, service, technical expertise, and product innovation. The Company's competitors include a number of large multinational corporations. Competition could increase if new companies enter the market or if existing competitors expand their product lines or intensify efforts within existing product lines. There can be no assurance that the Company's current products, products under development, or ability to develop new technologies will be sufficient to enable it to compete effectively.

Dependence on Patents and Proprietary Rights. The Company places considerable emphasis on obtaining patent and trade secret protection for significant new technologies, products, and processes because of the length of time and expense associated with bringing new products through the development process and to the marketplace. The Company's success depends in part on its ability to develop patentable products and obtain and enforce patent protection for its products both in the United States and in other countries. The Company owns numerous U.S. and foreign patents, and intends to file additional applications as appropriate for patents covering its products. No assurance can be given that patents will issue from any pending or future patent applications owned by or licensed to the Company, or that the claims allowed under any issued patents will be sufficiently broad to protect the Company's technology. No assurance can be given that any issued patents owned by or licensed to the Company will not be challenged, invalidated, or circumvented, or that the rights thereunder will provide competitive advantages to the Company. The Company could incur substantial costs in defending itself in suits brought against it or in suits in which the Company may assert its patent rights against others. If the outcome of any such litigation is unfavorable to the Company, the Company's business and results of operations could be materially adversely affected.

In addition, there can be no assurance that third parties will not assert claims against the Company to the effect that the Company is infringing the intellectual property rights of such parties. The Company could incur substantial costs and diversion of management resources with respect to the defense of any such claims, which could have a

material adverse effect on the Company's business, financial condition, and results of operations. Furthermore, parties making such claims could secure a judgment awarding substantial damages, as well as injunctive or other equitable relief, which could effectively block the Company's ability to make, use, sell, distribute, or market its products and services in the U.S. or abroad. In the event that a claim relating to intellectual property is asserted against the Company, the Company may seek licenses to such intellectual property. There can be no assurance, however, that such licenses could be obtained on commercially reasonable terms, if at all. The failure to obtain the necessary licenses or other rights could preclude the sale, manufacture, or distribution of the Company's products and, therefore, could have a material adverse effect on the Company's business, financial condition, and results of operations.

The Company relies on trade secrets and proprietary know-how which it seeks to protect, in part, by confidentiality agreements with its collaborators, employees, and consultants. There can be no assurance that these agreements will not be breached, that the Company would have adequate remedies for any breach, or that the Company's trade secrets will not otherwise become known or be independently developed by competitors.

Risks Associated with Acquisition Strategy. The Company's acquisition strategy includes the acquisition of businesses that complement or augment the Company's existing products and services. Promising acquisitions are difficult to identify and complete for a number of reasons, including competition among prospective buyers and the need for regulatory, including antitrust, approvals. Any acquisition completed by the Company may be made at a substantial premium over the fair value of the net assets of the acquired company. There can be no assurance that the Company will be able to complete future acquisitions or that the Company will be able to successfully integrate any acquired businesses into its existing businesses or make such businesses profitable.

Risks Associated with Cash Management Arrangement with Thermo Electron. The Company participates in a cash management arrangement with Thermo Electron. Under this cash management arrangement, the Company lends its excess cash to Thermo Electron on an unsecured basis. The Company has the contractual right to withdraw its funds invested in the cash management arrangement upon 30 days' prior notice. Thermo Electron is contractually required to maintain cash, cash equivalents and/or immediately available bank lines of credit equal to at least 50% of all funds invested under the cash management arrangement by all Thermo Electron subsidiaries other than wholly owned subsidiaries. The funds are held on an unsecured basis and therefore are subject to the credit risk of Thermo Electron. The Company's ability to receive its cash upon notice of withdrawal could be adversely affected if participants in the cash management arrangement demand withdrawal of their funds in an aggregate amount in excess of the 50% reserve required to be maintained by Thermo Electron. In the event of a bankruptcy of Thermo Electron, the Company would be treated as an unsecured creditor and its right to receive funds from the bankruptcy estate would be subordinated to secured creditors and would be treated on a pari-passu basis with all other unsecured creditors. Further, all cash withdrawn by the Company from the cash management arrangement within one year before the bankruptcy would be subject to rescission. The inability of Thermo Electron to return the Company's cash on a timely basis or at all could have a material adverse effect on the Company's results of operations and financial position.

Selected Financial Information

(In thousands except per share amounts)	1999 (a)	1998	1997 (b)	1996 (c)	1995
Statement of Income Data					
Revenues	$228,036	$247,426	$ 239,642	$192,209	$206,743
Net Income	17,778	17,995	16,426	19,894	20,249
Earnings per Share:					
Basic	.29	.29	.27	.33	.33
Diluted	.29	.29	.26	.31	.32

Balance Sheet Data

Working Capital	$158,711	$193,446	$ 176,996	$115,609	$ 70,882
Total Assets	442,577	427,100	418,938	257,232	199,671
Long-term Obligations	154,350	153,000	153,000	34	15,041
Common Stock of Subsidiary Subject to Redemption	-	53,801	52,812	56,087	-
Shareholders' Investment	164,070	150,948	138,095	130,850	109,631

(a) Reflects an $11.2 million gain on the February 1999 disposition of Thermo Wisconsin, Inc., restructuring costs and unusual items of $6.2 million, and the reclassification of common stock of subsidiary subject to redemption to current liabilities.
(b) Reflects the May 1997 acquisition of Thermo Black Clawson, the issuance of $153.0 million principal amount of 4 1/2% subordinated convertible debentures, and the conversion of a $15.0 million principal amount subordinated convertible note by Thermo Electron.
(c) Reflects the July 1996 acquisition of GranTek, the net proceeds from Thermo Fibergen's September 1996 initial public offering, and the repayment of a $10.4 million promissory note to Thermo Electron.

Common Stock Market Information

The Company's common stock is traded on the American Stock Exchange under the symbol TFT. The following table sets forth the high and low sale prices of the Company's common stock for 1999 and 1998, as reported in the consolidated transaction reporting system.

	1999		1998	
Quarter	High	Low	High	Low
First	$ 7 15/16	$ 7	$14 1/4	$11 1/4
Second	7 13/16	6 1/2	12 3/4	9 1/2
Third	7 7/16	6 1/8	10 5/8	7 7/16
Fourth	7 1/4	6 7/16	7 3/4	4 15/16

As of January 28, 2000, the Company had 751 holders of record of its common stock. This does not include holdings in street or nominee names. The closing market price on the American Stock Exchange for the Company's common stock on January 28, 2000, was $7 3/8 per share.

Common stock and redemption rights of Thermo Fibergen Inc., the Company's majority-owned public subsidiary, are traded on the American Stock Exchange (symbols TFG and TFG_r).

Shareholder Services

Shareholders of Thermo Fibertek Inc. who desire information about the Company are invited to contact the Investor Relations Department, Thermo Fibertek Inc., 81 Wyman Street, P.O. Box 9046, Waltham, Massachusetts 02454-9046, (781) 622-1111. Distribution of printed quarterly reports is limited to the second quarter only. Company information is available at http://www.thermo.com/ subsid/tft1.html on Thermo Electron's Internet site.

Stock Transfer Agent

American Stock Transfer & Trust Company is the stock transfer agent and maintains shareholder activity records. The agent will respond to questions on issuance of stock certificates, change of ownership, lost stock certificates, and change of address. For these and similar matters, please direct inquiries to:

American Stock Transfer & Trust Company
Shareholder Services Department
40 Wall Street, 46th Floor
New York, New York 10005
(718) 921-8200

Dividend Policy

The Company has never paid cash dividends and does not expect to pay cash dividends in the foreseeable future because its policy has been to use earnings to finance expansion and growth. Payment of dividends will rest within the discretion of the Board of Directors and will depend upon, among other factors, the Company's earnings, capital requirements, and financial condition.

Form 10-K Report

A copy of the Annual Report on Form 10-K for the fiscal year ended January 1, 2000, as filed with the Securities and Exchange Commission, may be obtained at no charge by writing to the Investor Relations Department, Thermo Fibertek Inc., 81 Wyman Street, P.O. Box 9046, Waltham, Massachusetts 02454-9046.

Exhibit 21

THERMO FIBERTEK INC.

Subsidiaries of the Registrant

At February 23, 2000, the Registrant owned the following companies:

NAME	STATE OR JURISDICTION OF INCORPORATION	PERCENT OF OWNERSHIP
AES Equipos y Sistemas S.A. de C.V.	Mexico	100
ArcLine Products, Inc.	New York	100
Fibertek Construction Company, Inc.	Maine	100
Thermo AES Canada Inc.	Canada	100
Thermo Black Clawson Inc.	Delaware	100
Thermo Black Clawson (China)	China	100
Thermo Black Clawson S.A.	France	100
Thermo Fibertek Holdings Limited	England	100
Thermo Black Clawson Limited	England	100
Thermo Fibertek U.K. Limited	England	100
D.S.T. Pattern Engineering Company Limited	England	100
Vickerys Limited	England	100
Winterburn Limited	England	100
Thermo Web Systems, Inc.	Massachusetts	100
Fiberprep Inc. (31.05% of which shares are owned directly by E. & M. Lamort, S.A.)	Delaware	95
Fiberprep Securities Corporation	Delaware	100
TMO Lamort Holdings Inc.	Delaware	100
E. & M. Lamort, S.A.	France	100
Lamort Equipementos Industrials Ltda.	Brazil	60*
Lamort GmbH	Germany	100
Lamort Iberica S.A.	Spain	100
Lamort Italia S.R.L.	Italy	100
Lamort Paper Services Ltd.	England	100
Nordiska Lamort Lodding A.B.	Sweden	100
Thermo Fibergen Inc. (additionally 0.11% of the shares are owned directly by Thermo Electron Corporation)	Delaware	73.58
Fibergen Securities Corporation	Massachusetts	100
GranTek Inc.	Wisconsin	100
Next Fiber Products Inc.	Delaware	51*

*Joint Venture/Partnership

Exhibit 23

Consent of Independent Public Accountants

As independent public accountants, we hereby consent to the incorporation by reference of our reports dated February 9, 2000, included in or incorporated by reference into Thermo Fibertek Inc.'s Annual Report on Form 10-K for the year ended January 1, 2000, into the Company's previously filed Registration Statements as follows: Registration Statement No. 33-67190 on Form S-8, Registration Statement No. 33-67192 on Form S-8, Registration Statement No. 33-67194 on Form S-8, Registration Statement No. 33-67196 on Form S-8, Registration Statement No. 33-83718 on Form S-8, Registration Statement No. 33-80751 on Form S-8, and Registration Statement No. 333-80509 on Form S-8.

Arthur Andersen LLP

Boston, Massachusetts
March 13, 2000

<ARTICLE> 5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM
THERMO FIBERTEK INC.'S
ANNUAL REPORT ON FORM 10-K FOR THE PERIOD ENDED JANUARY 1,2000
AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

</LEGEND>

<MULTIPLIER> 1,000

<PERIOD-TYPE>	YEAR
<FISCAL-YEAR-END>	JAN-01-2000
<PERIOD-END>	JAN-01-2000
<CASH>	39,254
<SECURITIES>	46,405
<RECEIVABLES>	50,982
<ALLOWANCES>	1,659
<INVENTORY>	28,907
<CURRENT-ASSETS>	273,169
<PP&E>	67,804
<DEPRECIATION>	37,310
<TOTAL-ASSETS>	442,577
<CURRENT-LIABILITIES>	114,458
<BONDS>	154,350
<PREFERRED-MANDATORY>	0
<PREFERRED>	0
<COMMON>	635
<OTHER-SE>	163,435
<TOTAL-LIABILITY-AND-EQUITY>	442,577
<SALES>	228,036
<TOTAL-REVENUES>	228,036
<CGS>	134,893
<TOTAL-COSTS>	134,893
<OTHER-EXPENSES>	2,276
<LOSS-PROVISION>	234
<INTEREST-EXPENSE>	7,449
<INCOME-PRETAX>	30,551
<INCOME-TAX>	11,852
<INCOME-CONTINUING>	17,778
<DISCONTINUED>	0
<EXTRAORDINARY>	0
<CHANGES>	0
<NET-INCOME>	17,778
<EPS-BASIC>	0.29
<EPS-DILUTED>	0.29