SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(mark one)
[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Quarter Ended October 2, 1999

[ ] 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

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 (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

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

Class	Outstanding at October 29, 1999
Common Stock, $.01 par value	61,183,016

PART I - FINANCIAL INFORMATION

Item 1 - Financial Statements

THERMO FIBERTEK INC.

Consolidated Balance Sheet
(Unaudited)

Assets

(In thousands)	October 2, 1999	January 2, 1999
Current Assets:		
Cash and cash equivalents (includes $74,447 under repurchase agreement with parent company in fiscal 1998)	$ 40,743	$115,472
Advance to affiliate (Note 8)	90,404	-
Available-for-sale investments, at quoted market value (amortized cost of $46,354 and $48,210)	46,246	48,206

Accounts receivable, less allowances of $2,021 and $2,231	42,911	50,281
Unbilled contract costs and fees	3,035	2,968
Inventories:		
Raw materials and supplies	11,986	14,848
Work in process	5,655	5,341
Finished goods	11,448	10,435
Prepaid income taxes	6,625	6,806
Other current assets	947	1,935
	260,000	256,292
Property, Plant, and Equipment, at Cost	65,937	68,661
Less: Accumulated depreciation and amortization	36,763	36,925
	29,174	31,736
Other Assets (Note 7)	13,529	12,309
Cost in Excess of Net Assets of Acquired Companies (Note 5)	123,030	126,763
	$425,733	$427,100

THERMO FIBERTEK INC.
Consolidated Balance Sheet (continued)
(Unaudited)

Liabilities and Shareholders' Investment

(In thousands except share amounts)	October 2, 1999	January 2, 1999
Current Liabilities:		
Notes payable and current maturities of long-term obligation (Note 5)	$ 456	$ -
Accounts payable	17,124	21,548
Accrued payroll and employee benefits	7,638	10,273
Billings in excess of contract costs and fees	2,159	5,846
Accrued warranty costs	4,907	5,830
Customer deposits	3,415	3,154
Accrued income taxes	5,236	2,810
Accrued interest	1,455	3,136
Other accrued expenses (Notes 5 and 6)	11,802	8,970
Common stock of subsidiary subject to redemption ($50,430 redemption value)	49,555	-
Due to parent company and affiliated companies	1,293	1,279
	105,040	62,846
Deferred Income Taxes and Other Deferred Items	6,291	6,202
Long-term Obligations:		
Subordinated convertible debentures	153,000	153,000
Note payable (Note 5)	1,350	-
	154,350	153,000
Minority Interest	320	303
Common Stock of Subsidiary Subject to Redemption ($54,762 redemption value)	-	53,801
Shareholders' Investment:		
Common stock, $.01 par value, 150,000,000 shares authorized; 63,515,987 and 63,379,337 shares issued	635	634

Capital in excess of par value	77,088	78,731
Retained earnings	113,409	100,602
Treasury stock at cost, 2,332,971 and 2,238,830 shares	(21,289)	(21,286)
Deferred compensation	(74)	-
Accumulated other comprehensive items (Note 2)	(10,037)	(7,733)
	159,732	150,948
	$425,733	$427,100

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

THERMO FIBERTEK INC.

Consolidated Statement of Income
(Unaudited)

(In thousands except per share amounts)	Three Months Ended October 2, 1999	October 3, 1998
Revenues	$53,075	$59,678
Costs and Operating Expenses:		
Cost of revenues	31,177	35,702
Selling, general, and administrative expenses	14,903	15,208
Research and development expenses	1,753	1,754
Gain on sale of business (Note 5) and property	(55)	(178)
Nonrecurring costs (Note 6)	2,769	-
	50,547	52,486
Operating Income	2,528	7,192
Interest Income	2,231	1,918
Interest Expense	(1,876)	(1,854)
Income Before Provision for Income Taxes and Minority Interest	2,883	7,256
Provision for Income Taxes	1,055	2,797
Minority Interest Expense	260	302
Net Income	$ 1,568	$ 4,157
Basic and Diluted Earnings per Share (Note 3)	$ .03	$ .07
Weighted Average Shares (Note 3):		
Basic	61,177	61,684
Diluted	61,525	62,339

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

THERMO FIBERTEK INC.

Consolidated Statement of Income
(Unaudited)

(In thousands except per share amounts)	Nine Months Ended October 2, 1999	Nine Months Ended October 3, 1998
Revenues	$166,847	$185,591
Costs and Operating Expenses:		
Cost of revenues	99,449	110,218
Selling, general, and administrative expenses	45,554	47,006
Research and development expenses	5,413	5,378
Gain on sale of business (Note 5) and property	(11,154)	(260)
Restructuring and nonrecurring costs (Note 6)	6,152	-
	145,414	162,342
Operating Income	21,433	23,249
Interest Income	6,238	6,002
Interest Expense	(5,571)	(5,562)
Income Before Provision for Income Taxes and Minority Interest	22,100	23,689
Provision for Income Taxes	8,548	9,183
Minority Interest Expense	745	770
Net Income	$ 12,807	$ 13,736
Basic and Diluted Earnings per Share (Note 3)	$ .21	$ .22
Weighted Average Shares (Note 3):		
Basic	61,182	61,683
Diluted	61,570	62,539

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

THERMO FIBERTEK INC.

Consolidated Statement of Cash Flows
(Unaudited)

(In thousands)	Nine Months Ended October 2, 1999	October 3, 1998
Operating Activities:		
Net income	$ 12,807	$13,736
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,147	6,785
Provision for losses on accounts receivable	-	112
Minority interest expense	745	770
Gain on sale of business (Note 5) and property	(11,154)	(260)
Noncash nonrecurring costs (Note 6)	3,239	-
Other	(122)	210
Changes in current accounts, excluding the effects of acquisitions and disposition:		
Accounts receivable	3,433	8,973
Inventories and unbilled contract costs and fees	(622)	(448)
Prepaid income taxes and other current assets	850	834
Accounts payable	(1,059)	(7,554)
Other current liabilities	(3,261)	(3,786)
Net cash provided by operating activities	12,003	19,372
Investing Activities:		
Acquisitions, net of cash acquired (Note 5)	(2,607)	(1,296)
Proceeds from sale of business, net of cash divested (Note 5)	13,592	-
Refund of acquisition purchase price (Note 5)	377	-
Advances to affiliate, net (Note 8)	(90,404)	-
Purchases of available-for-sale investments	(61,825)	(51,225)
Proceeds from sale and maturities of available-for-sale investments	62,827	43,961
Purchases of property, plant, and equipment	(2,434)	(6,832)
Advances under notes receivable	-	(2,910)
Other, net	546	401
Net cash used in investing activities	(79,928)	(17,901)
Financing Activities:		
Purchases of Company and subsidiary common stock	(4,109)	(5,331)
Purchases of subsidiary common stock from Thermo Electron	(2,227)	-
Net proceeds from issuance of Company common stock	415	1,809
Net cash used in financing activities	$ (5,921)	$(3,522)

THERMO FIBERTEK INC.

Consolidated Statement of Cash Flows (continued)
(Unaudited)

(In thousands)	Nine Months Ended October 2, 1999	October 3, 1998
Exchange Rate Effect on Cash	$ (883)	$(1,248)
Decrease in Cash and Cash Equivalents	(74,729)	(3,299)
Cash and Cash Equivalents at Beginning of Period	115,472	111,648
Cash and Cash Equivalents at End of Period	$ 40,743	$108,349

Noncash Activities (Note 5):		
Fair value of assets of acquired companies	$ 4,860	$ 1,493
Cash paid for acquired companies	(2,660)	(1,296)
Note payable for acquired companies	(1,730)	-
Liabilities assumed of acquired companies	$ 470	$ 197

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

Notes to Consolidated Financial Statements

1. General

The interim consolidated financial statements presented have been prepared by Thermo Fibertek Inc. (the Company) without audit and, in the opinion of management, reflect all adjustments of a normal recurring nature necessary for a fair statement of the financial position at October 2, 1999, the results of operations for the three- and nine-month periods ended October 2, 1999, and October 3, 1998, and the cash flows for the nine-month periods ended October 2, 1999, and October 3, 1998. Interim results are not necessarily indicative of results for a full year.

The consolidated balance sheet presented as of January 2, 1999, has been derived from the consolidated financial statements that have been audited by the Company's independent public accountants. The consolidated financial statements and notes are presented as permitted by Form 10-Q and do not contain certain information included in the annual financial statements and notes of the Company. The consolidated financial statements and notes included herein should be read in conjunction with the financial statements and notes included in the Company's Annual Report on Form 10-K for the fiscal year ended January 2, 1999, filed with the Securities and Exchange Commission.

2. Comprehensive Income

Comprehensive income combines net income and "other comprehensive items," which represents 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. During the third quarter of 1999 and 1998, the Company had comprehensive income of $2,772,000 and $4,520,000, respectively. During the first nine months of 1999 and 1998, the Company had comprehensive income of $10,520,000 and $13,374,000, respectively.

3. Earnings per Share

Basic and diluted earnings per share were calculated as follows:

	Three Months Ended		Nine Months Ended	
(In thousands except per share amounts)	October 2, 1999	October 3, 1998	October 2, 1999	October 3, 1998
Basic				
Net Income	$1,568	$ 4,157	$12,807	$13,736
Weighted Average Shares	61,177	61,684	61,182	61,683
Basic Earnings per Share	$ .03	$ .07	$ .21	$ .22

3. Earnings per Share (continued)

	Three Months Ended		Nine Months Ended	
(In thousands except per share amounts)	October 2, 1999	October 3, 1998	October 2, 1999	October 3, 1998
Diluted				
Net Income	$1,568	$ 4,157	$12,807	$13,736
Effect of Majority-owned Subsidiary's Dilutive Securities	(8)	(7)	(46)	(16)
Income Available to Common Shareholders, as Adjusted	$1,560	$ 4,150	$12,761	$13,720
Weighted Average Shares	61,177	61,684	61,182	61,683
Effect of Stock Options	348	655	388	856
Weighted Average Shares, as Adjusted	61,525	62,339	61,570	62,539
Diluted Earnings per Share	$ .03	$ .07	$ .21	$ .22

The computation of diluted earnings per share for all periods excludes the effect of assuming the exercise of certain outstanding stock options because the effect would be antidilutive. As of October 2, 1999, there were 888,000 of such options outstanding, with exercise prices ranging from $7.46 to $14.32 per share.

In addition, the computation of diluted earnings per share for each period excludes the effect of assuming the conversion of the Company's $153,000,000 principal amount of 4 1/2% subordinated convertible debentures, convertible at $12.10 per share, because the effect would be antidilutive.

4. Business Segment Information

	Three Months Ended		Nine Months Ended	
(In thousands)	October 2, 1999	October 3, 1998	October 2, 1999	October 3, 1998
Revenues:				

Pulp and Papermaking Equipment and Systems	$ 50,815	$ 54,652	$158,509	$166,824
Dryers and Pollution-control Equipment (a)	-	4,256	1,802	16,092
Water- and Fiber-recovery Services and Products	2,266	1,124	6,593	3,784
Intersegment sales elimination (b)	(6)	(354)	(57)	(1,109)
	$ 53,075	$ 59,678	$166,847	$185,591

4. Business Segment Information (continued)

(In thousands)	Three Months Ended October 2, 1999	Three Months Ended October 3, 1998	Nine Months Ended October 2, 1999	Nine Months Ended October 3, 1998
Income Before Provision for Income Taxes and Minority Interest:				
Pulp and Papermaking Equipment and Systems (c)	$ 6,770	$ 7,923	$17,285	$ 25,814
Dryers and Pollution-control Equipment (d)	55	487	11,609	2,154
Water- and Fiber-recovery Services and Products	(174)	(646)	(582)	(2,086)
Corporate (e)	(4,123)	(572)	(6,879)	(2,633)
Total operating income	2,528	7,192	21,433	23,249
Interest income, net	355	64	667	440
	$ 2,883	$ 7,256	$22,100	$ 23,689

(a) The Company sold this segment in February 1999.
(b) Intersegment sales are accounted for at prices that are representative of transactions with unaffiliated parties.
(c) Includes $3.1 million of restructuring and nonrecurring costs in the first nine months of 1999.
(d) Includes $0.1 million and $11.2 million of gain on sale of business in the third quarter of 1999 and first nine months of 1999, respectively.
(e) Includes $2.8 million and $3.0 million of nonrecurring costs in the third quarter of 1999 and first nine months of 1999, respectively, for the write-down of a note receivable. Also includes related carrying costs of the note receivable and underlying security of $0.3 million in the third quarter of 1999 and $1.0 million and $0.3 million in the first nine months of 1999 and 1998, respectively.

5. Acquisitions and Disposition

In May 1999, the Company acquired the outstanding stock of Arcline Products, a manufacturer of shower oscillation systems, for $2,660,000 in cash and $2,000,000 payable in equal annual installments over five years. The liability has been recorded at its net present value of $1,730,000 in the accompanying balance sheet.

This acquisition has been accounted for using the purchase method of accounting and its results have been included in the Company's results from the date of acquisition. The cost of this acquisition approximated the estimated fair value of the acquired net assets. Allocation of the purchase price for this acquisition was based on an estimate of the fair value of the net assets acquired. Pro forma results have not been presented, as the results of the acquired business were not material to the Company's results of operations.

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. 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.

During the first quarter of 1999, the Company received $377,000 for a post-closing purchase price adjustment related to the 1998 acquisition of Goslin Birmingham. The Company recorded this amount as a reduction of cost in excess of net assets of acquired companies.

The Company has undertaken restructuring activities at certain 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 and acquired overmarket leases, for which the

5. Acquisitions and Disposition (continued)

Company established reserves as part of the cost of acquisitions. In accordance with EITF 95-3, the Company finalizes its restructuring plans no later than one year from the respective dates of the acquisitions. A summary of the changes in accrued acquisition expenses, which represent ongoing payments for severance and are included in other accrued expenses in the accompanying 1998 balance sheet, follows:

(In thousands)	Total
Balance at January 2, 1999	$149
Usage	(69)
Decrease due to finalization of restructuring plan, recorded as a decrease to cost in excess of net assets of acquired companies	(80)
Balance at October 2, 1999	$ -

6. Restructuring and Nonrecurring Costs

During the first nine months of 1999, the Company recorded restructuring and nonrecurring costs 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 October 2, 1999, and $974,000 to terminate distributor agreements. Nonrecurring charges 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 7) and $205,000 for impairment of a building held for disposal, which was sold in July 1999; $526,000 for the expected settlement of a legal dispute; and $130,000 for facility-closure costs. 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 January 2, 1999	$ -	$ 34	$ 34
Provision charged to expense	1,283	974	2,257
Usage	(767)	(246)	(1,013)
Currency translation	(115)	(88)	(203)
Balance at October 2, 1999	$ 401	$ 674	$ 1,075

7. Note Receivable

During 1996, the Company loaned $6,000,000 to Tree-Free Fiber Company, LLC 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 conducted a foreclosure sale of the tissue mill, at which it was the successful bidder, 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 value of the note. 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. The Company had previously recorded impairment on this note of $200,000 in the first quarter of 1999 (Note 6).

8. Cash Management Arrangement

Effective June 1, 1999, the Company and Thermo Electron Corporation 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. Amounts invested in this arrangement are included in "advance to affiliate" in the accompanying balance sheet.

I

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

Forward-looking statements, within the meaning of Section 21E of the Securities Exchange Act of 1934, are made throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations. For this purpose, any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, the words "believes," "anticipates," "plans," "expects," "seeks," "estimates," and similar expressions are intended to identify forward-looking statements. There are a number of important factors that could cause 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 Exhibit 13 to the Company's Annual Report on Form 10-K for the fiscal year ended January 2, 1999, filed with the Securities and Exchange Commission.

Overview

Prior to March 1999, the Company operated in three segments: Pulp and Papermaking Equipment and Systems, Dryers and Pollution-control Equipment, 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 5).

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 for $13.6 million in cash (Note 5). Thermo Wisconsin's unaudited revenues to external customers and net income for fiscal 1998 were $18.9 million and $1.5 million, respectively.

The Water- and Fiber-recovery Services and Products segment, which consists of the Company's Thermo Fibergen subsidiary, designs, builds, owns, and operates plants to help pulp and paper mill customers close the loop in their water and solids systems on a long-term contract basis. The plants clean and recycle water and long fiber for reuse in the papermaking process. In July 1998, the Company completed construction of, and began operating, its first plant. In addition, through its GranTek subsidiary, Thermo Fibergen employs patented technology to produce absorbing granules from papermaking byproducts. These granules are used as agricultural carriers, oil- and grease-absorbents, and cat box fillers. In October 1999, Thermo Fibergen formed a joint venture that plans to produce, market, and sell thermoplastic composites using byproducts from the papermaking process.

Overview (continued)

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 1998, 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. dollars, French francs, 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. 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.

The Company's sales to customers in Asia were approximately 5% of the Company's total sales in 1998, a substantial portion of which were sales to China. The Company's sales to Asia have been adversely affected by the unstable economic conditions in that region.

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. The paper industry entered a severe downcycle in early 1996 and has not recovered. This cyclical downturn, which began adversely affecting the Company's business during the second half of 1996, continues to have an adverse effect on the Company's business. In addition, the unstable economic conditions in Asia, and weakened currencies in that region, have resulted in increased low-cost imports of pulp and paper in North America and Europe, resulting in reduced pricing. These factors have also resulted in a decline in paper and pulp exports from North America and Europe to Asia. The timing of the recovery of the financial condition of the paper industry cannot be predicted.

Results of Operations

Third Quarter 1999 Compared With Third Quarter 1998

Excluding the results of Thermo Wisconsin, which was sold in February 1999, revenues decreased to $53.1 million in the third quarter of 1999 from $55.7 million in the third quarter of 1998. Thermo Wisconsin's revenues to external customers were $4.0 million in the third quarter of 1998. Arcline

Products, which was acquired in May 1999, added revenues of $0.4 million during the quarter. 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 $0.6 million in the third quarter of 1999. Excluding the results of Arcline and the effect of currency translation, revenues at the Company's Papermaking Equipment segment decreased $3.7 million, primarily due to lower revenues from the stock-preparation equipment product line in Europe and North America, due to reduced capital spending in the pulp and paper industry. The Water- and Fiber-recovery Services and Products segment revenues increased $1.1 million, primarily due to increased demand for cellulose-based products and increased sales of its cat box filler product, which was introduced in the third quarter of 1998.

The gross profit margin increased to 41% in the third quarter of 1999 from 40% in the third quarter of 1998, primarily due to the absence of lower-margin sales following the sale of Thermo Wisconsin.

Selling, general, and administrative expenses as a percentage of revenues increased to 28% in the third quarter of 1999 from 25% in the third quarter of 1998. The increase was primarily at the Papermaking Equipment segment, due to decreased revenues. The increase in selling, general, and administrative expenses as a percentage of revenues also resulted from the sale of Thermo Wisconsin, for which such costs represented 16% of its revenues in the 1998 period. These increases were offset in part by the impact of increased revenues at the Water- and Fiber-recovery Services and Products segment.

Research and development expenses were unchanged at $1.8 million in the third quarter of 1999 and 1998.

Nonrecurring costs of $2.8 million in the third quarter of 1999 primarily represent the writedown of a note receivable secured by a tissue mill (Notes 6 and 7). During 1996, the Company loaned $6.0 million to Tree-Free Fiber Company, LLC 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 recent 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 conducted a foreclosure sale of the tissue mill, at which it was the successful bidder, 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 value of the note. During the first quarter of 1999, the Company recorded a $0.2 million write-down to reflect the note at its estimated recoverable value at that time. 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 $2.8 million write-down to reflect the asset at its estimated recoverable value.

Interest income increased to $2.2 million in the third quarter of 1999 from $1.9 million in the third quarter of 1998, due to higher average invested balances primarily as a result of cash received from the sale of Thermo Wisconsin. Interest expense was unchanged at $1.9 million in the third quarter of 1999 and 1998.

The effective tax rate was 37% in the third quarter of 1999, compared with 39% in the third quarter of 1998. The effective tax rates exceeded the statutory federal income tax rate primarily due to the impact of state income taxes. The effective tax rate decreased in 1999 due to the relative decrease in earnings in jurisdictions with higher tax rates.

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

First Nine Months 1999 Compared With First Nine Months 1998

Excluding the results of Thermo Wisconsin, which was sold in February 1999, revenues decreased to $165.1 million in the first nine months of 1999 from $170.1 million in the first nine months of 1998. Thermo Wisconsin's revenues to external customers were $1.8 million and $15.5 million in the first nine months of 1999 and 1998, respectively. Arcline Products, which was acquired in May 1999, added revenues of $0.5 million during the period. 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 $0.5 million in the first nine months of 1999. Excluding the results of Arcline and the effect of currency translation, revenues at the Company's Papermaking Equipment segment decreased $8.3 million, primarily due to decreased revenues from the stock-preparation equipment and accessories product lines in North America. This decrease was offset in part by increased revenues at that segment's water-management product line in North America. The Water-

and Fiber-recovery Services and Products segment revenues increased $2.8 million due to increased demand for cellulose-based products, sales of its cat box filler product, and the inclusion of revenues for the full 1999 period from its fiber-recovery and water-clarification facility, which began operations in July 1998.

The gross profit margin decreased slightly to 40.4% in the first nine months of 1999, compared with 40.6% in the first nine months of 1998, primarily due to competitive pricing pressures at the Papermaking Equipment segment's Lamort subsidiary.

Selling, general, and administrative expenses as a percentage of revenues increased to 27% in the first nine months of 1999 from 25% in the first nine months of 1998, primarily due to the decline in revenues and the effect of the sale of Thermo Wisconsin, for which such costs represented 13% of its revenues in the 1998 period.

Research and development expenses were unchanged at $5.4 million in the first nine months of 1999 and 1998.

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 5).

Restructuring and nonrecurring costs of $6.2 million in the first nine months of 1999 represents write-downs for impairment of assets, severance costs, termination of distributor agreements, the expected settlement of a legal dispute, and facility-closure costs (Note 6).

Interest income and expense were relatively unchanged in the first nine months of 1999 and 1998.

The effective tax rate was unchanged at 39% in the first nine months of 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.

Liquidity and Capital Resources

Consolidated working capital was $155.0 million at October 2, 1999, compared with $193.4 million at January 2, 1999. Working capital decreased $49.6 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 $87.0 million at October 2, 1999, compared with $163.7 million at January 2, 1999. Also, as of October 2, 1999, the Company had $90.4 million invested in an advance to affiliate. Prior to the use of a new domestic cash management arrangement between the Company and Thermo Electron Corporation (Note 8), which became effective June 1, 1999, amounts invested with Thermo Electron were included in cash and cash equivalents. Of the total cash, cash equivalents, and available-for-sale investments, $46.3 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, $6.7 million was advanced by Thermo Fibergen, $7.0 million was advanced by the Company's Thermo Fiberprep subsidiary, and the balance was advanced by the Company. At October 2, 1999, $39.2 million of the Company's cash and cash equivalents was held by its foreign subsidiaries. Repatriation of this cash into the United States would be subject to foreign withholding taxes and could also be subject to a U.S. tax.

During the first nine months of 1999, $12.0 million of cash was provided by operating activities. A decrease in accounts receivable, which was primarily related to the decline in sales at the Company's Lamort subsidiary, provided $3.4 million of cash. The Company used $1.1 million to reduce accounts payable, primarily due to the decline in sales at the Company's Lamort subsidiary. A decrease in other current liabilities used $3.3 million of cash, due to the decline in sales and the timing of billings on long-term contracts. The Company expects to pay the remaining accrued restructuring costs of $1.1 million through 2000.

During the first nine months of 1999, the Company's investing activities, excluding available-for-sale investments and advance to affiliate activity (Note 8), provided $9.5 million of cash. The Company received proceeds of $13.6 million from the sale of Thermo Wisconsin and used $2.6 million, net of cash acquired, to purchase the assets of Arcline (Note 5). In addition, the Company purchased property, plant, and equipment for $2.4 million and received a refund of $0.4 million related to the 1998 acquisition of Goslin Birmingham (Note 5).

During the first nine months of 1999, the Company's financing activities used $5.9 million of cash. The Company used $2.5 million to purchase Company common stock and Thermo Fibergen used $3.8 million to purchase its common stock. These purchases were made pursuant to authorizations by the Company's and Thermo Fibergen's Boards of Directors. As of October 2, 1999, the Company had a remaining authorization to purchase $8.3 million of Company common stock, outstanding convertible debentures, or Thermo Fibergen common stock in open market or negotiated transactions through January 22, 2000 and Thermo Fibergen had a remaining authorization to purchase $2.6 million of its common stock in open market or negotiated transactions through March 16, 2000. Any such purchases are funded from working capital.

Thermo Fibergen's common stock is subject to redemption in September 2000 or September 2001, the redemption value of which is $50.4 million.

At October 2, 1999, the Company had $64.3 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 the remainder of 1999, the Company plans to make expenditures for property, plant, and equipment of approximately $1.0 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.

Year 2000

The following information constitutes a "Year 2000 Readiness Disclosure" under the Year 2000 Information and Readiness Disclosure Act. The Company continues to assess the potential impact of the year 2000 date recognition issue on the Company's internal business systems, products, and operations. The Company's year 2000 initiatives include (i) testing and upgrading significant information technology systems and facilities; (ii) evaluating the compliance status of the Company's current products and certain discontinued products; (iii) assessing the year 2000 readiness of its key suppliers and vendors; and (iv) developing contingency plans.

The Company's State of Readiness

The Company has implemented a compliance program to ensure that its critical information technology systems and non-information technology systems will be ready for the year 2000. The first phase of the program, testing and evaluating the Company's critical information technology systems and non-information technology systems for year 2000 compliance, has largely been completed. During phase one, the Company tested and evaluated its significant computer systems, software applications, and related equipment for year 2000 compliance. The Company also evaluated the potential year 2000 impact on its critical non-information technology systems, which efforts included testing the year 2000 readiness of its manufacturing, utility, and telecommunications systems at its critical facilities. In phase two of its program, any material noncompliant information technology systems or non-information technology systems that were identified during phase one were prioritized and remediated. Based on its evaluations, the Company does not believe that any material upgrades are necessary to make its critical non-information technology systems year 2000 compliant. The Company has substantially completed upgrading or replacing its material noncompliant information technology systems and expects that its material information technology systems and critical non-information technology systems will be year 2000 compliant by the end of November 1999.

The Company has also tested and evaluated the year 2000 readiness of the material products that it currently manufactures and sells. The Company believes that all of such material products are either year 2000 compliant or not date sensitive. Certain of the Company's older products, which it no longer manufactures or sells, may not be year 2000 compliant.

The Company is in the process of identifying and assessing the year 2000 readiness of key suppliers and vendors that are believed to be significant to the Company's business operations. As part of this effort, the Company developed and distributed questionnaires relating to year 2000 compliance to its significant suppliers and vendors. To date, no significant supplier or vendor has indicated that it believes its business operations will be materially disrupted by the year 2000 issue. The Company is following up with significant suppliers and vendors that have not responded to the Company's questionnaires. The Company has substantially completed its assessment of third-party risk.

Contingency Plan

The Company has substantially completed its contingency plans that will allow its primary business operations to continue despite disruptions due to year 2000 problems. These plans include identifying and securing other suppliers, increasing inventories, and modifying production facilities and schedules. As the Company continues to evaluate the year 2000 readiness of its business systems, facilities, and significant suppliers and vendors, it will modify and adjust its contingency plans as may be required.

Estimated Costs to Address the Company's Year 2000 Issues

To date, costs incurred in connection with the year 2000 issue have not been material. The Company does not expect total year 2000 remediation costs to be material, but there can be no assurance that the Company will not encounter unexpected costs or delays in achieving year 2000 compliance. Year 2000 costs are funded from working capital. All internal costs and related external costs, other than capital additions, related to year 2000 remediation have been and will continue to be expensed as incurred. The Company does not track internal costs incurred for its year 2000 compliance project. Such costs are principally the related payroll costs for its information systems group.

Reasonably Likely Worst Case Scenario

At this point in time, the Company is not able to determine the most reasonably likely worst case scenario to result from the year 2000 issue. One possible worst case scenario would be that certain of the Company's material suppliers or vendors experience business disruptions due to the year 2000 issue and would be unable to provide materials and services to the Company on time. The Company's operations could be delayed or temporarily shut down, and it could be unable to meet its obligations to customers in a timely fashion. The Company's business, operations, and financial condition could be adversely affected in amounts that cannot be reasonably estimated at this time. If the Company believes that any of its key suppliers or vendors may not be year 2000 ready, it will seek to identify and secure other suppliers or vendors as part of its contingency plan.

Risks of the Company's Year 2000 Issues

While the Company is attempting to minimize any negative consequences arising from the year 2000 issue, there can be no assurance that year 2000 problems will not have a material adverse impact on the Company's business, operations, or financial condition. While the Company expects that upgrades to its internal business systems will be completed in a timely fashion, there can be no assurance that the Company will not encounter unexpected costs or delays. Certain of the Company's older products, which it no longer manufactures or sells, may not be year 2000 compliant, which may expose the Company to claims. As discussed above, if any of the Company's material suppliers or vendors experience business disruptions due to year 2000 issues, the Company might also be materially adversely affected. If any countries in which the Company operates experience significant year 2000 disruption, the Company could also be materially adversely impacted. There is expected to be a significant amount of litigation relating to the year 2000 issue and there can be no assurance that the Company will not incur material costs in defending or bringing lawsuits. In addition, if any year 2000 issues are identified, there can be no assurance that the Company will be able to retain qualified personnel to remedy such issues. Any unexpected costs or delays arising from the year 2000 issue could have a material adverse impact on the Company's business, operations, and financial condition in amounts that cannot be reasonably estimated at this time.

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tem 3 - Quantitative and Qualitative Disclosures About Market Risk

The Company's exposure to market risk from changes in interest rates, equity prices, and foreign currency exchange rates has not changed materially from its exposure at year-end 1998.

PART II - OTHER INFORMATION

Item 6 - Exhibits and Reports on Form 8-K

(a) Exhibits

See Exhibit Index on the page immediately preceding exhibits.

(b) Reports on Form 8-K

None.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized as of the 9th day of November 1999.

THERMO FIBERTEK INC.

/s/ Paul F. Kelleher
Paul F. Kelleher
Chief Accounting Officer

/s/ Theo Melas-Kyriazi
Theo Melas-Kyriazi
Chief Financial Officer

EXHIBIT INDEX

Exhibit Number	Description of Exhibit
27	Financial Data Schedule.

<ARTICLE> 5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THERMO FIBERTEK INC.'S QUARTERLY REPORT ON FORM 10-Q FOR THE PERIOD ENDED OCTOBER 2, 1999 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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