

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(mark one)

- Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Quarter Ended March 29, 1997.
- 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 (State or other jurisdiction of incorporation or organization) 52-1762325 (I.R.S. Employer Identification No.)

81 Wyman Street, P.O. Box 9046 Waltham, Massachusetts (Address of principal executive offices) 02254-9046 (Zip Code)

Registrant's telephone number, including area code: (617) 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 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 April 25, 1997
----- Common Stock, \$.01 par value	----- 61,195,263

PAGE

PART I - FINANCIAL INFORMATION

Item 1 - Financial Statements

THERMO FIBERTEK INC.
Consolidated Balance Sheet
(Unaudited)

Assets

(In thousands)	March 29, 1997	December 28, 1996
-----	-----	-----
Current Assets:		
Cash and cash equivalents	\$108,697	\$109,805
Accounts receivable, less allowances of \$1,863 and \$1,948	31,241	38,115
Unbilled contract costs and fees	5,135	1,236
Inventories:		
Raw materials and supplies	12,367	13,778
Work in process	4,939	4,180
Finished goods	6,716	6,509
Prepaid income taxes and other current assets (Note 2)	10,499	8,802
-----	-----	-----
	179,594	182,425

Property, Plant, and Equipment, at Cost	56,076	57,869
Less: Accumulated depreciation and amortization	30,538	31,329
	-----	-----
	25,538	26,540
	-----	-----
Other Assets	8,689	8,720
	-----	-----
Cost in Excess of Net Assets of Acquired Companies	38,766	39,547
	-----	-----
	\$252,587	\$257,232
	=====	=====

2PAGE

THERMO FIBERTEK INC.

Consolidated Balance Sheet (continued)
(Unaudited)

Liabilities and Shareholders' Investment

(In thousands except share amounts)	March 29, 1997	December 28, 1996

Current Liabilities:		
Accounts payable	\$ 16,660	\$ 16,805
Accrued payroll and employee benefits	7,784	10,989
Billings in excess of contract costs and fees	2,839	2,540
Accrued warranty costs	7,150	7,752
Accrued income taxes (includes \$1,516 and \$1,340 due to related party)	3,243	2,414
Other accrued expenses	8,701	8,707
Due to parent company	16,701	17,609
	-----	-----
	63,078	66,816
	-----	-----
Deferred Income Taxes and Other Deferred Items	2,948	3,202
	-----	-----
Minority Interest	300	277
	-----	-----
Common Stock of Subsidiary Subject to Redemption (\$60,116 redemption value)	56,359	56,087
	-----	-----
Shareholders' Investment:		
Common stock, \$.01 par value, 75,000,000 shares authorized; 61,154,930 shares issued	612	612
Capital in excess of par value	65,891	65,951
Retained earnings	69,641	66,181
Treasury stock at cost, 11,550 and 23,550 shares	(177)	(360)
Cumulative translation adjustment	(6,065)	(1,534)
	-----	-----
	129,902	130,850
	-----	-----
	\$252,587	\$257,232
	=====	=====

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	
	March 29, 1997	March 30, 1996
Revenues (includes \$319 from related party in 1996)	\$44,667	\$48,980
Costs and Operating Expenses:		
Cost of revenues (includes \$213 for related party revenues in 1996)	25,536	28,192
Selling, general, and administrative expenses	12,975	11,467
Research and development expenses	1,276	1,273
	39,787	40,932
Operating Income	4,880	8,048
Interest Income	1,437	735
Interest Expense (includes \$131 to related party in 1997 and 1996)	(156)	(172)
Income Before Provision for Income Taxes and Minority Interest	6,161	8,611
Provision for Income Taxes	2,317	3,399
Minority Interest Expense	384	6
Net Income	\$ 3,460	\$ 5,206
Earnings per Share:		
Primary	\$.06	\$.09
Fully diluted	\$.06	\$.08
Weighted Average Shares:		
Primary	61,140	60,935
Fully diluted	64,189	64,356

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

THERMO FIBERTEK INC.

Consolidated Statement of Cash Flows
(Unaudited)

(In thousands)	Three Months Ended	
	March 29, 1997	March 30, 1996
Operating Activities:		
Net income	\$ 3,460	\$ 5,206
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,403	1,083
Provision for losses on accounts receivable	15	42
Minority interest expense	384	6
Deferred income tax expense	-	215
Other noncash items	-	(314)
Changes in current accounts:		
Accounts receivable	5,249	6,577
Inventories and unbilled contract costs and fees	(4,778)	(391)
Prepaid income taxes and other current assets	1,045	(684)
Accounts payable	(111)	(2,148)
Other current liabilities	(1,578)	(3,807)
Net cash provided by operating activities	5,089	5,785
Investing Activities:		
Issuance of note receivable	(3,000)	-
Proceeds from sale and maturities of available-for-sale investments	-	1,250
Purchases of property, plant, and equipment	(908)	(663)
Proceeds from sale of property, plant, and equipment	-	548
Other	(21)	143
Net cash provided by (used in) investing activities	(3,929)	1,278
Financing Activities:		
Net proceeds from issuance of Company and subsidiary common stock	36	555
Repayment of short-term obligation to parent company	-	(10,400)
Repayment of long-term obligations	(32)	(2)
Net cash provided by (used in) financing activities	\$ 4	\$ (9,847)

5PAGE

THERMO FIBERTEK INC.

Consolidated Statement of Cash Flows (continued)
(Unaudited)

(In thousands)	Three Months Ended	
	March 29, 1997	March 30, 1996
Exchange Rate Effect on Cash	\$ (2,272)	\$ (346)
Decrease in Cash and Cash Equivalents	(1,108)	(3,130)
Cash and Cash Equivalents at Beginning of Period	109,805	57,028
Cash and Cash Equivalents at End of Period	\$108,697	\$ 53,898

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 March 29, 1997, and the results of operations and cash flows for the three-month periods ended March 29, 1997, and March 30, 1996. Interim results are not necessarily indicative of results for a full year.

The consolidated balance sheet presented as of December 28, 1996, 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 December 28, 1996, filed with the Securities and Exchange Commission.

2. Letter of Intent

On February 26, 1997, the Company entered into a letter of intent to acquire the assets, subject to certain liabilities, of the stock-preparation business of the Black Clawson Company and its affiliates (collectively, Black Clawson) for approximately \$110 million in cash. Black Clawson is a leading supplier of recycling equipment used in processing fiber for the manufacture of "brown paper" such as that used for corrugated boxes. The transaction is subject to several conditions, including completion by the Company of its due diligence investigation; negotiation of a definitive agreement; and approval by the Boards of Directors of the Company, Thermo Electron Corporation, and Black Clawson. If this transaction is consummated, the Company intends to borrow the majority of the purchase price from Thermo Electron.

Pursuant to a promissory note, Carl C. Landegger, a trustee of a trust that directly controls Black Clawson, borrowed \$6.0 million from a third party lender. In March 1997, the Company purchased a 50%, or \$3.0 million, participation in the promissory note pursuant to an agreement with the lender. The interest rate on the loan is prime plus 1% and the loan is due on June 10, 1997. The loan is secured by all of the outstanding capital stock of United Container Machinery, Inc., a company under common ownership with Black Clawson. The Company believes that the fair value of the collateral for this loan exceeds the \$6.0 million loan amount.

Item 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 caption "Forward-looking Statements" in Exhibit 13 to the Company's Annual Report on Form 10-K for the fiscal year ended December 28, 1996, filed with the Securities and Exchange Commission.

Overview

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. The Company's Thermo Fibergen Inc. (Thermo Fibergen) subsidiary is developing and commercializing equipment and systems to recover valuable materials from papermaking sludge generated by plants that produce virgin and recycled pulp and paper. Through its GranTek Inc. (GranTek) subsidiary, acquired in July 1996, Thermo Fibergen employs patented technology to produce absorbing granules from papermaking sludge.

The Company's products are primarily sold to the paper industry. Generally, the financial condition of the paper industry corresponds both to changes in the general economy, as well as a number of other factors, including paper and pulp production capacity. The paper industry entered a severe down cycle in early 1996 and has not recovered. This cyclical downturn adversely affected the Company's business during the second half of 1996 and the first quarter of 1997. The timing of the recovery of the financial condition of the paper industry cannot be predicted.

The Company has significant foreign operations, particularly in Europe. Although the Company seeks to charge its customers in the same currency as its operating costs, 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.

Results of Operations

First Quarter 1997 Compared With First Quarter 1996

Revenues decreased 9% to \$44.7 million in the first quarter of 1997 from \$49.0 million in the first quarter of 1996. Revenues from the Company's recycling business decreased \$3.9 million primarily due to a decrease in demand resulting from a severe drop in de-inked pulp prices. This decrease was offset in part by \$1.5 million in revenues from the Company's GranTek subsidiary, acquired in July 1996. Revenues from the Company's accessories business decreased \$0.8 million, due principally to a decrease in demand. The unfavorable effects of currency translation due to a stronger U.S. dollar decreased revenues by \$0.9 million.

The gross profit margin increased to 43% in the first quarter of 1997 from 42% in the first quarter of 1996, largely due to the inclusion in 1996 of warranty reserves recorded at the Company's Fiberprep subsidiary for a large de-inking project (unrelated to the office wastepaper de-inking facility subcontract for Thermo Electron Corporation completed in 1996).

Selling, general, and administrative expenses as a percentage of revenues increased to 29% in the first quarter of 1997 from 23% in the first quarter of 1996, primarily due to the decrease in revenues, as well as higher general and administrative expenses as a percentage of revenues at Thermo Fibergen, which is developing and commercializing equipment and systems to recover materials from papermaking sludge.

Research and development expenses were unchanged at \$1.3 million in the first quarter of 1997 and 1996. Thermo Fibergen's spending on research and development increased \$0.3 million due to continued development of technology to recover materials from papermaking sludge generated by plants that produce virgin and recycled pulp and paper. The Company expects Thermo Fibergen's spending on research and development will continue to increase over amounts incurred in 1996.

Interest income increased to \$1.4 million in the first quarter of 1997 from \$0.7 million in the first quarter of 1996, primarily due to an increase in average invested balances resulting from the proceeds from Thermo Fibergen's initial public offering in September 1996.

The effective tax rate was 38% in the first quarter of 1997 and 39% in the first quarter of 1996. The effective tax rates exceed the statutory federal income tax rate due primarily to state income taxes, offset in part by the effect of lower foreign tax rates.

Liquidity and Capital Resources

Consolidated working capital was \$116.5 million at March 29, 1997, compared with \$115.6 million at December 28, 1996. Included in working capital are cash and cash equivalents of \$108.7 million at March 29, 1997, compared with \$109.8 million at December 28, 1996. Of the \$108.7 million balance at March 29, 1997, \$58.8 million was held by Thermo Fibergen and \$3.4 million was held by Fiberprep, with the remainder being held by the Company and its wholly owned subsidiaries. At March 29, 1997, \$18.4 million of the Company's cash and cash equivalents was held by its

Liquidity and Capital Resources (continued)

Lamort subsidiary. Repatriation of this cash into the United States is subject to a 5% withholding tax in France and could also be subject to a United States tax.

During the first quarter of 1997, \$5.1 million of cash was provided by operating activities. Cash provided by the Company's operating results was increased by a decrease in accounts receivable of \$5.3 million, offset in part by an increase in unbilled contract costs and fees of \$4.1 million. The reduction in accounts receivable was primarily due to the timing of billings on percentage-of-completion contracts, which is also reflected in the increase in unbilled contract costs and fees.

During the first quarter of 1997, \$3.9 million of cash was used in investing activities for purchases of property, plant, and equipment and for a loan of \$3.0 million pursuant to a promissory note (Note 2).

The Company currently owns 68% of Thermo Fibergen's outstanding common stock and intends, for the foreseeable future, to maintain at least 50% ownership. This may require the purchase by the Company of additional shares of common stock of Thermo Fibergen from time to time, as the number of Thermo Fibergen shares increases as a result of the exercise of stock options or otherwise. These or any other purchases may be made either in the open market or directly from Thermo Fibergen. The Company's Board of Directors has authorized the repurchase, through March 19, 1998, of up to \$5.0 million of Thermo Fibergen's common stock. Any such purchases would be funded from working capital. Through March 29, 1997, the Company had not repurchased any shares of common stock under this authorization.

On February 26, 1997, the Company entered into a letter of intent to acquire the assets, subject to certain liabilities, of the stock-preparation business of the Black Clawson Company for approximately \$110 million in cash (Note 2). If this transaction is consummated, the Company intends to borrow the majority of the purchase price from Thermo Electron.

In the remainder of 1997, the Company plans to make expenditures for property, plant, and equipment of approximately \$3 million. In addition, Thermo Fibergen may make additional capital expenditures for the construction of one or more fiber-recovery plants. Construction of fiber-recovery plants is dependent upon Thermo Fibergen entering into long-term contracts with paper mills, under which Thermo Fibergen will charge fees to accept the mills' pulp sludge. Thermo Fibergen does not currently have such agreements in place nor is there any assurance that Thermo Fibergen will be able to obtain such contracts. The Company believes that its existing resources are sufficient to meet the capital requirements of its existing operations for the foreseeable future.

PART II - OTHER INFORMATION

Item 6 - Exhibits

See Exhibit Index on the page immediately preceding exhibits.

THERMO FIBERTEK INC.

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 2nd day of May 1997.

THERMO FIBERTEK INC.

Paul F. Kelleher

Paul F. Kelleher
Chief Accounting Officer

John N. Hatsopoulos

John N. Hatsopoulos
Vice President and Chief
Financial Officer

THERMO FIBERTEK INC.

EXHIBIT INDEX

Exhibit Number	Description of Exhibit
11	Statement re: Computation of Earnings per Share.
27	Financial Data Schedule.

THERMO FIBERTEK INC.

Computation of Earnings per Share

Three Months Ended

	March 29, 1997	March 30, 1996
--	-------------------	-------------------

 Computation of Fully Diluted Earnings
per Share:

Income:		
Net income	\$ 3,460,000	\$ 5,206,000
Add: Convertible debt interest, net of tax	79,000	79,000
	-----	-----
Income applicable to common stock assuming full dilution (a)	\$ 3,539,000	\$ 5,285,000
	-----	-----
Shares:		
Weighted average shares outstanding	61,140,495	60,934,520
Add: Shares issuable from assumed conversion of subordinated convertible obligation	1,888,113	1,888,113
Shares issuable from assumed exercise of options (as determined by the application of the treasury stock method)	1,160,395	1,532,985
	-----	-----
Weighted average shares outstanding, as adjusted (b)	64,189,003	64,355,618
	-----	-----
Fully Diluted Earnings per Share (a) / (b)	\$.06	\$.08
	=====	=====

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THERMO FIBERTEK INC.'S QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED MARCH 29, 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

3-MOS	JAN-03-1998	MAR-29-1997
		108,697
		0
	33,104	
	1,863	
	24,022	
	179,594	
		56,076
	30,538	
	252,587	
63,078		0
	0	
		0
		612
		129,290
252,587		
		44,667
	44,667	
		25,536
	25,536	
	1,276	
	15	
	156	
	6,161	
	2,317	
3,460		
	0	
	0	
		0
	3,460	
	.06	
	.06	