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 December 30, 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 26, 2001, was approximately $17,929,000.

As of January 26, 2001, the Registrant had 61,386,544 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Annual Report to Shareholders for the year ended December 30, 2000, are incorporated by reference into Parts I and II, and portions of the Registrant's definitive Proxy Statement for the Annual Meeting of Shareholders to be held on May 15, 2001, are incorporated by reference into Part III. Copies of these documents can be obtained at no cost by calling the Company's Investor Relations Department at (781) 622-1111.

PART I

Item 1. Business

(a) General Development of Business

Thermo Fibertek Inc. (the Company or the Registrant), operates in two segments: (1) Pulp and Papermaking Equipment and Systems and (2) Water- and Fiber-recovery Services and Products.

Through its Pulp and Papermaking Equipment and Systems segment, the Company designs and manufactures stock-preparation systems and equipment, paper machine 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 the continuous cleaning of papermaking machine fabrics, and the draining, purifying, and recycling of process water for paper sheet and web formation. The Company is a leading equipment manufacturer for the worldwide papermaking and paper recycling industries with its products and systems found in over 90 percent of the world's pulp and paper mills. In 2000, the Company acquired the assets of Gauld Equipment Manufacturing Company, Inc., a manufacturer of stock-preparation equipment, and Cyclotech AB-Stockholm, a Swedish manufacturer of stock-preparation equipment.

The Company's Thermo Fibergen Inc. subsidiary comprises the Water- and Fiber-recovery Services and Products segment. Through its NEXT Fiber Products Inc. subsidiary, Thermo Fibergen develops, produces, and markets fiber-based composites primarily for the building industry, used for applications such as soundwalls, decking, privacy fencing, and siding. In addition, Thermo Fibergen is also developing a composite roof tile product that is lighter and has higher impact strength than traditional materials such as clay and slate tiles. Because Thermo Fibergen's composite building products are resistant to moisture, they do not possess many of the functional and practical disadvantages common to pressure-treated wood products such as splitting, splintering, warping, rotting, and insect infestation. In addition, Thermo Fibergen's products do not have the costs associated with the required annual maintenance of traditional pressure-treated wood products. In January 2001, Thermo Fibergen purchased the remaining 49% equity interest in NEXT Fiber Products from the minority investors. Thermo Fibergen constructed a composites manufacturing facility in Green Bay, Wisconsin, and began limited production at such facility in 2000. Thermo Fibergen is currently working to expand the capacity of the facility, and expects to have the capacity to support up to $20 million in annual revenues by mid-2001. In addition, Thermo Fibergen, through its GranTek subsidiary, employs patented technology to produce biodegradable absorbing granules from papermaking byproducts. These granules are used as agricultural carriers, oil and grease absorbents, and cat box fillers. Prior to September 2000, this segment also owned and operated a plant that provided fiber-recovery and water-clarification services to a host mill 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. Thermo Fibergen sold this plant to the host mill in September 2000, although it intends to continue operating in this line of business and is pursuing other fiber-recovery projects.

In February 1999, the Company sold its Thermo Wisconsin Inc. subsidiary, which represented its Dryers and Pollution-control Equipment segment, for $13.6 million in cash.

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 paper manufacturers 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 products for manufacture in South America and the Pacific Rim.

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. During the month of September 2000, the initial redemption period, holders of Thermo Fibergen's common stock and common stock redemption rights surrendered 2,713,951 shares of Thermo Fibergen's common stock at a redemption price of $12.75 per share, for a total of $34,603,000. Thermo Fibergen used available working capital to fund the payment and retired these shares immediately following the redemption. Holders of a redemption right have the option to require Thermo Fibergen to redeem one share of Thermo Fibergen's common stock at $12.75 per share in September 2001, the second and final redemption period. A redemption right may only be exercised if the holder owns a share of Thermo Fibergen's common stock at that time. As of December 30, 2000, there were 2,001,049 redemption rights outstanding and 1,075,749 shares of Thermo Fibergen's common stock held by persons other than Thermo Electron or Thermo Fibertek. In addition, Thermo Electron, Thermo Fibergen, and/or the Company may acquire additional shares of Thermo Fibergen's common stock in the open market, and there can be no assurance that Thermo Fibergen will issue additional shares of its common stock through the exercise of employee stock options or other transactions. To the extent that the number of redemption rights exceeds the number of shares of common stock held by persons other than Thermo Electron or the Company, the maximum redemption value that Thermo Fibergen would be required to pay is an amount equal to the redemption price of $12.75 per share times the total number of shares of Thermo Fibergen's common stock outstanding held by persons other than Thermo Electron or the Company at the time of redemption. 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. In addition, the Company has agreed to lend Thermo Fibergen up to $5 million on commercially reasonable terms for the September 2001 redemption and for working capital needs.

As of December 30, 2000, the Company owned 10,413,350 shares of Thermo Fibergen's common stock, representing 91% of such outstanding common stock, and Thermo Electron owned 9,550 shares of Thermo Fibergen's common stock, representing 0.1% of such outstanding common stock.

The Company is a majority-owned subsidiary of Thermo Electron. As of December 30, 2000, Thermo Electron owned 55,627,480 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. In February 2001, Thermo Electron received a favorable ruling from the Internal Revenue Service regarding the spin off. The IRS required that the spin off be completed within one year of the ruling, and, subject to certain conditions, that the Company raise additional equity capital in a public offering within one year of the spin off. The Company plans to issue equity in the range of 10 to 20 percent of its outstanding shares to support its current business plan, which includes the repayment of debt, acquisitions, strategic partnerships, and investment in additional capacity for its composites business. Thermo Electron has announced that it expects to distribute the Thermo Fibertek dividend in the second half of 2001. The spin off of the Company will require final Thermo Electron Board of Director actions and other customary conditions. Following the spin off, Thermo Electron will continue to guarantee in each case, on a subordinated basis, the Company's $153,000,000 principal amount of 4 1/2% subordinated convertible debentures due 2004 and Thermo Fibergen's remaining obligation under its redemption rights.

Thermo Electron is a global leader in providing technology-based instruments, components, and systems that offer total solutions for markets ranging from life sciences to telecommunications to food, drug, and beverage production. Thermo Electron's powerful technologies help researchers sift through data to make discoveries that will fight disease or prolong life. They allow manufacturers to fabricate ever-smaller components required to increase the speed and quality of communications. And they automatically monitor and control online production to ensure that critical quality standards are met safely and efficiently.

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 2000* 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 2000 Annual Report to Shareholders, which information is incorporated herein by reference.

(c) Description of Business

The Company organizes and manages its business by individual functional operating entity. The Company operates in two segments: (1) Pulp and Papermaking Equipment and Systems and (2) 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.

Pulp and Papermaking Equipment and Systems

The paper industry is comprised of over 8,000 papermaking machines worldwide that generate approximately 300 million tons of paper and paperboard products per year. The United States pulp and paper industry generates over $136 billion in annual revenue. Historically, the volume of paper production has tended to grow at approximately the same rate as the general economy.

The paper industry is characterized by high asset intensity and a highly fragmented market with no one company having more than 10 percent of the world market, although a supplier may have higher market share in a particular paper grade such as tissue or printing and writing paper. With the notable exception of branded products such as tissue, most paper products are commodities that compete globally. As a result, the paper industry is highly cyclical with periods of high capacity additions followed by over supply and resulting lower product prices and vice versa.

The paper industry has been in a relatively severe down cycle since 1996 with falling pulp and paper prices and decreased capital spending. As a consequence, the industry has gone through a major consolidation accompanied by the closure of many outdated mills and delayed capital spending in many instances. In addition, the paper industry has become more sophisticated in managing its capital expenditures, including implementing highly disciplined return on investment criteria. Some paper manufacturers have unilaterally decided to reduce production in an effort to balance supply with demand and thereby maintain prices.

Areas in which the need for papermaking capacity is expected to grow the most include developing nations with temperate climates, such as South America and Southeast Asia. These areas have advantages in fiber cost, as trees such as Eucalyptus can grow up to seven times faster than hardwood trees in colder climates. In addition, demand for

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* References to 2000, 1999, and 1998 herein are for the fiscal years ended December 30, 2000, January 1, 2000, and January 2, 1999, respectively.

paper products in these regions is expected to grow as their economies develop. For example, the per capita paper usage in China is 62 pounds per year or only half the average global per capita amount. In the United States the per capita consumption is 764 pounds per year. An additional source of demand for paper products in these regions is their growing export business. Goods produced in China and other Southeast Asian countries require boxes for shipments. Since China has a limited timber supply, much of this capacity will be recycled fiber.

Water- and Fiber-recovery Services and Products

The market for soundwall and privacy fencing products in North America is approximately $2 billion. The market for decking products in North America is approximately $2.5 billion and is growing at 8 percent per year. The market for roofing tiles in North America is approximately $4 billion. Composite building products were introduced into the decking market within the last 10 years and currently only represent approximately 5 percent of that market. The Company estimates that composite lumber products currently represent less than 1 percent of the total soundwall, privacy fencing, and roofing markets. The Company believes that the market for composite building products will grow as customer awareness of the advantages of these products increases their acceptance as an alternative to traditional wood products.

The residential segment of the composites market includes construction of decks and fences for new and existing homes. The growth in demand for residential fencing and decking reflects the increasing cost of new homes and the increasing density of homes in urban and suburban areas. Most of the deck and fence construction is for existing homes. Homeowners find that adding a deck or fence to their existing homes is an affordable way to increase the living and recreational space of their homes while increasing their value. When interest rates are high or there is economic uncertainty, many homeowners choose to improve their existing homes by installing privacy fences or decks rather than purchasing a new home. Because sales of privacy fences and decks are not reliant on new home construction, the fencing and decking industry is less cyclical than the home construction and other building materials industries.

The Company's absorbing cellulose-based granules are used in agricultural carriers, oil and grease absorbents, and cat box fillers. The Company's most significant application for these granules is the non-clay base agricultural carriers, which are used in applications such as row crops and home, lawn and garden. Agricultural carriers are the "inactive" ingredient that is used to distribute pesticides and other material in an even and uniform manner. Most agricultural carriers are clay based. Clay based products have the disadvantages of being dusty and having a lack of uniform absorption and particle distribution. Other non-clay based carriers include corncob granules, which are traditionally used in home, lawn and professional turf applications.

(i) Principal Products and Services

Pulp and Papermaking Equipment and Systems

The Company's papermaking equipment business is comprised of the following product lines: stock preparation systems for the manufacture of recycled paper, accessory systems for continuous cleaning of rolls used in papermaking machines, and water-management systems for continuous cleaning of papermaking machine fabrics as well as formation and drainage systems critical to sheet formation.

Stock-preparation Systems and Equipment

The Company develops, designs, and manufactures custom-engineered systems and equipment that remove debris, impurities, and ink from wastepaper, and processes 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 and equipment 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 trash removal systems that remove larger debris and impurities by screening them from the pulp mixture.

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 from the pulp mixture heavyweight contaminants such as metal and sand, and reverse cleaners for the removal of lightweight contaminants such as glue and plastic.

De-inking Systems, that inject small air bubbles into the bottom of the pulp mixture. The ink bonds to the air bubbles and rises to the surface, where the inky film is removed.

Washing Systems, including washing systems that remove ink and ash from the pulp mixture by injecting water counter current to the flow and drawing contaminates out with the water.

Thickeners, which remove water from the pulp mixture, thereby increasing the consistency of the mixture up to 40%. Thicker pulp mixtures are necessary to break up ink particles in dispersers.

Dispersers, including mechanical dispersers that break down ink particles that were not removed in the de-inking system into microscopic particles or combine them to form larger particles that can be removed in subsequent processing.

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

Chemi-Washer(R), a horizontal counter-current belt washer, which 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.

Bleaching Systems, including oxygen-bleaching systems that increase the brightness of the pulp without using chlorine bleach or moving parts.

Revenues from the Company's stock-preparation equipment and systems product line were $113.0 million, $98.9 million, and $107.5 million in 2000, 1999, and 1998, respectively.

Accessories

The Company designs, develops, and manufactures a wide range of accessories that continuously clean the rolls of a papermaking machine, remove the paper sheet or 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 serve to reduce machine breakdowns and downtime, extend the life of consumable fabrics, and improve 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 $70.3 million, $74.8 million, and $77.8 million in 2000, 1999, and 1998, respectively.

Water-management Systems

The Company designs, develops, and manufactures water-management systems used to drain water from the pulp mixture, form the sheet or web, and filter 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 mixture to form the sheet or web.

Showers and Felt-conditioning Systems, that are used to clean and condition the fabrics and felts, which in turn are used to transport the sheet or 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 contaminants from the process water before reuse and to recover reusable fiber for recycling back into the pulp mixture.

Revenues from the Company's water-management product line were $42.4 million, $42.6 million, and $36.9 million in 2000, 1999, and 1998, respectively.

Water- and Fiber-recovery Services and Products

Thermo Fibergen, through its NEXT Fiber Products Inc. subsidiary, develops, produces, and markets fiber-based composites primarily for the building industry. These engineered composite building products are made from papermaking byproducts, reclaimed plastic, and other material. As an alternative to traditional wood products such as pressure treated lumber, cedar, and hardwoods, composite building products have numerous applications such as soundwalls, decking, privacy fencing, and siding. Thermo Fibergen is also developing a composite roof tile product that is lighter and has higher impact strength than traditional materials such as clay tiles and slate. Thermo Fibergen constructed a composites manufacturing facility in Green Bay, Wisconsin, and began limited production at such facility in 2000. Thermo Fibergen is currently working to expand the capacity of the facility, and expects to have the capacity to support up to $20 million in annual revenues by mid-2001.

The Company's composite building products business is comprised of the following product lines:

Soundwall Fences, including upright posts, top and bottom rails, and tongue and groove boards that slide into the rails and posts for easy installation and feature an attractive brushed appearance. The Company has completed internal testing and determined that the soundwall products meet the necessary sound dampening standards.

Privacy Fences, including the same elements as the soundwall system and featuring an attractive brushed appearance that is maintenance-free.

Decking, including deck boards as well as railings, which offers a more attractive alternative to the homeowner than comparable products that do not offer railings.

In addition, the Company is in the process of developing:

Roof Tiles, which are made to resemble traditional clay, cedar, and slate tiles. Traditional clay and slate tiles are heavy, brittle, and susceptible to breakage. The Company's composite tile products are lighter, have higher impact strength, are less susceptible to breakage than traditional clay and slate tiles, and provide significant savings in labor and other costs. In internal testing, the Company's composite roof tile products achieved the highest fire rating.

The Company has manufactured prototypes of double Roman roof tiles similar in appearance to those found on homes in Europe and the southern United States and has successfully tested them in Europe.

Thermo Fibergen, through its GranTek subsidiary, also employs patented technology to produce biodegradable absorbing granules from papermaking byproducts. These granules are used as agricultural carriers, oil and grease absorbents, and cat box fillers. The agricultural carriers are used to deliver agricultural chemicals for professional turf, home lawn and garden, agricultural row-crop, and mosquito-control applications. In addition, GranTek's granules are used in certain of the Company's composite building materials products.

In addition, prior to September 2000, the Company, through its Thermo Fibergen subsidiary, owned and operated a plant that provided fiber-recovery and water-clarification services to a host mill on a long-term contract basis. The plant, which the Company began operating in July 1998, cleaned and recycled water and long fiber for reuse in the papermaking process. Thermo Fibergen sold this plant to the host mill in September 2000, although it intends to continue operating in this line of business and is pursuing other fiber-recovery projects.

(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 maintains active programs for product development using both new and existing technologies, and has technology and centers in Europe and the U.S. that are 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. At such pilot laboratories, a customer's wastepaper can be tested to determine the recommended system configuration for its future facility. The pilot 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.

For accessories and water-management products, the Company conducts dedicated research and development efforts at two separate facilities in the U.S.

Thermo Fibergen continues research and development efforts to develop high-value products using materials recovered from papermaking byproducts, including controlled-release granules for crop-protection chemicals, as well as new, cellulose-fiber-based composite products for the building industry, used for applications such as soundwalls, decking, privacy fencing, and siding. In addition, Thermo Fibergen is also developing a composite roof tile product that is lighter and has higher impact strength than traditional materials such as clay and slate tiles. Thermo Fibergen has a research and development facility in Bedford, Massachusetts, which is focused on developing new composite formulations.

Thermo Fibergen's GranTek subsidiary operates a manufacturing plant in Green Bay, Wisconsin, at which it processes papermaking byproducts provided by a nearby paper mill into cellulose-based granules. A pilot plant is located within GranTek's main manufacturing plant. This pilot plant processes up to 24 tons of material per day, and is used to develop many of the innovations implemented at GranTek's main plant. Thermo Fibergen believes that this pilot plant will provide the ability to process materials from other paper mills under operating conditions and in quantities sufficient to determine final product and operating characteristics and costs, as well as to develop new products.

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 the advancement of paper recycling equipment.

Research and development expenses for the Company were $7.7 million, $7.3 million, and $7.0 million in 2000, 1999, and 1998, 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 2001 to 2018.

Third parties have certain rights in two of the Company's patents that were jointly developed with such parties. The Company currently holds an exclusive long-term, worldwide license for a patent on technology that Centre Technique du Papier (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 another company 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. In addition, Thermo Fibergen currently holds several U.S. patents, expiring at various dates ranging from 2004 to 2016, relating to various aspects of the processing of cellulose-based granular materials and the use of such materials in the agricultural, professional turf, home lawn and garden, general absorption, oil and grease absorption, and cat box filler markets. Thermo Fibergen also has foreign counterparts to such U.S. patents in Canada and in various European countries, and has additional patents pending in Canada and certain European countries.

Thermo Fibergen has filed several U.S. patent applications for various products and processes relating to papermaking byproducts and composite materials and expects to file additional patent applications in the future. In addition, Thermo Fibertek holds two U.S. patents relating to its "scalping" technology, which is an important component of Thermo Fibergen's fiber-recovery system, that expire in 2011 and 2014.

(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

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

(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 $56.9 and $55.9 million at year-end 2000 and 1999, respectively. The backlog of firm orders for the Water- and Fiber-recovery Products and Services segment was $0.4 and $0.8 million at year-end 2000 and 1999, respectively. The Company anticipates that substantially all of the backlog at December 30, 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 and its predecessors have 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 in this market on a worldwide basis are Voith Sulzer Papiertechnik, Groupe Laperriere & Verrault Inc., Ahlstrom Machine Company, Kvaerner Pulping Technologies, Metso Corporation, and Maschinenfabrik Andritz AG. The Company competes in this market primarily on the basis of technical expertise, product innovation, and price. Other competitors specialize in segments within the white- and brown-paper markets.

The Company is a leading supplier of specialty accessory equipment for papermaking machines. The Company's principal competitors in this market on a worldwide basis are ESCO Technologies Inc. and Metso Corporation. 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, performance, and price.

The Company is a leading supplier of water-management systems. Various competitors exist in the formation, conditioning and cleaning systems, and filtration systems markets. Asten/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 markets, the Company generally competes on the basis of process knowledge, application experience, product quality, service, and price.

Water- and Fiber-recovery Services and Products

The Company expects to encounter intense competition in the sale of its fiber-based composite products. The Company expects that its principal competitors for its composite materials will be producers of traditional products such as pressure treated lumber, and clay and slate tiles. Many of the suppliers of traditional products have established ties in the building and construction industry. In addition, the Company expects to compete with other manufacturers of composite products. The dominant provider of composite decking products is Trex Company, Inc. In addition to Trex, there are several other manufacturers of composite products and many suppliers of traditional products that have announced plans to develop composite products. The Company expects to compete on the basis of product quality and price. No assurance can be given that the Company's competitors' technologies will not be superior to those of the Company. Many of these competitors may have substantially greater financial, marketing, and other resources than those of the Company. As a result, they may be able to adapt more quickly to new or emerging technologies and changes in customer requirements, or to devote greater resources to the promotion and sale of their services and products than the Company. There can be no assurance that the Company will be able to compete effectively with its competitors.

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 absorption 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 December 30, 2000, the Company employed approximately 1,262 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 34 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 2000 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	59	President and Chief Executive Officer (1991)
Thomas M. O'Brien	49	Executive Vice President, Finance (1994)
Jonathan W. Painter	42	Executive Vice President, Operations (1997)
Jan-Eric Bergstedt	65	Vice President; President, AES Engineered Systems (1996)
Edward J. Sindoni	56	Vice President; President, Thermo Web Systems, Inc. (1994)
Theo Melas-Kyriazi	41	Chief Financial Officer (1998)

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. Mr. Rainville has 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 and President of the Company's AES Engineered Systems subsidiary 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., also a former public subsidiary of Thermo Electron, 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. Mr. Melas-Kyriazi is a full-time employee of Thermo Electron, but devotes 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 December 30, 2000, are as follows:

Pulp and Papermaking Equipment and Systems

The Company owns approximately 1,000,000 square feet and leases approximately 100,000 square feet, under leases expiring at various dates ranging from 2001 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; Bury, England; and Hindas, Sweden.

Water- and Fiber-recovery Services and Products

The Company owns approximately 26,000 square feet and leases approximately 94,000 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; and Bedford, Massachusetts.

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 2000 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 2000 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 2000 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 2000 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 December 30, 2000, and Supplementary Data are included in the Registrant's 2000 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 26, 2001 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 26, 2001.

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 (designated Chief Accounting Officer)
By: /s/ Francis L. McKone Francis L. McKone	Director
By: /s/ Donald E. Noble Donald E. Noble	Director
By: /s/ Richard F. Syron Richard F. Syron	Chairman of the Board and Director

Report of Independent Public Accountants

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

We have audited, in accordance with auditing standards generally accepted in the United States, 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 12, 2001. 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 15 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 12, 2001

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 December 30, 2000	$1,659	$1,197	$ 7	$ (616)	$ (65)	$2,182
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

Description	Balance at Beginning of Year	Provision Charged to Expense (Reversed to Income)	Activity Charged to Reserve	Currency Translation	Balance at End of Year
Accrued Restructuring Costs (b)					
Year Ended December 30, 2000	$ 669	$ (506)	$ (33)	$ (98)	$ 32
Year Ended January 1, 2000	$ 34	$ 2,257	$(1,356)	$ (266)	$ 669
Year Ended January 2, 1999	$ 197	$ -	$ (163)	$ -	$ 34

(a) Includes allowances of businesses acquired and sold during the year, as described in Note 3 to Consolidated Financial Statements in the Registrant's 2000 Annual Report to Shareholders, and the effect of foreign currency translation.
(b) The nature of activity in this account is described in Note 11 to Consolidated Financial Statements in the Registrant's 2000 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 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	Agreement of Loan Guarantee dated as of February 12, 2001, between the Registrant and Thermo Fibergen Inc.
10.21	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).
10.22	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).
10.23	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.
10.24	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).
10.25	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).
10.26	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).
10.27	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).
10.28	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.

Exhibit 10.20

[Thermo Fibertek Inc. Letterhead]

February 12, 2001

Fibergen Inc.
8 Alfred Circle
Bedford, Massachusetts 01730
Attn: Dr. Yiannis A. Monovoukas,
President and Chief Executive Officer

Re: Agreement to make a loan of up to $5,000,000

Ladies and Gentlemen:

Reference is hereby made to those certain Redemption Rights issued by Thermo Fibergen Inc., a Delaware corporation ("Thermo Fibergen"), in its public offering of Units consisting of one share of Thermo Fibergen's Common Stock and one Redemption Right pursuant to and as more fully described in that certain Registration Statement filed with the Securities and Exchange. Thermo Fibergen is a publicly-traded subsidiary of Thermo Fibertek Inc., a Delaware corporation ("Thermo Fibertek"), which is a publicly-traded subsidiary of Thermo Electron Corporation, a Delaware corporation. Capitalized terms used herein without definition shall have the meaning ascribed to such terms in the Registration Statement.

WHEREAS, Each Redemption Right entitles the holder to sell one share of Thermo Fibergen's Common Stock to Thermo Fibergen during September 2000 (the "Initial Redemption") and September 2001 (the "Final Redemption"), for an amount of cash equal to the initial public offering price per unit;

WHEREAS, Thermo Fibergen used available working capital to fund the Initial Redemption and intends to use available working capital to fund the Final Redemption in September 2001; and

WHEREAS, In the event that Thermo Fibergen's working capital is insufficient to fund the Final Redemption and to meet its other working capital needs, Thermo Fibergen desires to have Thermo Fibertek agree to make, and Thermo Fibertek is willing to agree to make, a loan to Thermo Fibergen to satisfy the Final Redemption obligation and other working capital needs.

NOW, THEREFORE, the parties hereto (the "Parties") hereby agree that in the event that Thermo Fibergen's working capital is insufficient to fund the Final Redemption and to meet its other working capital needs, upon reasonable request by Thermo Fibergen on or before December 31, 2001 and subject to and upon commercially reasonable terms and conditions mutually satisfactory to the Parties, Thermo Fibertek shall make a loan to Thermo Fibergen of up to FIVE MILLION DOLLARS ($5,000,000) in original principal amount (the "Loan") bearing interest at a commercially reasonable rate for the Final Redemption obligations and other working capital needs of Thermo Fibergen. Thermo Fibergen's obligation to repay the principal of and interest on such Loan shall be evidenced by a promissory note in form and substance mutually satisfactory to the Parties; provided, however, that Thermo Fibergen's obligation to make any specific payment of principal of and/or interest on the Loan shall be conditioned on the ability of Thermo Fibergen to meet reasonable cash flow requirements at the time of such specified payment, which cash flow requirements shall be mutually satisfactory to the Parties.

[Remainder of Page Intentionally Left Blank]

Please indicate your acceptance of the foregoing by signing and returning to the undersigned an original counterpart of this letter.

Very truly yours,

THERMO FIBERTEK INC.

By: ______________________________________

Name: Jonathan W. Painter
Title: Executive Vice President, Operations

Accepted, acknowledged and agreed by the undersigned as of the date first above written:

THERMO FIBERGEN INC.

By: ___________________________________
Name: Yiannis A. Monovoukas
Title: President

Exhibit 13

Thermo Fibertek Inc.

Consolidated Financial Statements

2000

Consolidated Statement of Income

(In thousands except per share amounts)	2000	1999	1998
Revenues (Notes 13 and 16)	$234,913	$228,036	$247,426
Costs and Operating Expenses:			
Cost of revenues	145,111	134,893	147,262
Selling, general, and administrative expenses (Note 9)	60,901	61,345	63,381
Research and development expenses	7,687	7,278	6,971
Gain on sale of business (Note 4) and property	(1,700)	(11,154)	(536)
Restructuring and unusual items (Note 11)	(506)	6,152	-
	211,493	198,514	217,078
Operating Income	23,420	29,522	30,348
Interest Income	10,466	8,478	7,956
Interest Expense (Note 8)	(7,503)	(7,449)	(7,408)
Income Before Provision for Income Taxes, Minority Interest, and Cumulative Effect of Change in Accounting Principle	26,383	30,551	30,896
Provision for Income Taxes (Note 7)	(10,947)	(11,852)	(11,902)
Minority Interest Income (Expense)	576	(921)	(999)
Income Before Cumulative Effect of Change in Accounting Principle	16,012	17,778	17,995
Cumulative Effect of Change in Accounting Principle (net of income taxes of $580; Note 16)	(870)	-	-
Net Income	$ 15,142	$ 17,778	$ 17,995
Basic and Diluted Earnings per Share Before Cumulative Effect of Change in Accounting Principle	$ .26	$ .29	$ .29
Basic and Diluted Earnings per Share (Note 14)	$ .25	$ .29	$ .29
Weighted Average Shares (Note 14)			
Basic	61,298	61,186	61,612
Diluted	61,490	61,559	62,353

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

Consolidated Balance Sheet

(In thousands)	2000	1999
Assets		
Current Assets:		
Cash and cash equivalents	$ 62,461	$ 39,254
Advance to affiliate	5,704	93,780
Available-for-sale investments, at quoted market value (amortized cost of $86,104 and $46,470; Note 2)	86,137	46,405
Accounts receivable, less allowances of $2,182 and $1,659	43,866	49,323
Unbilled contract costs and fees	8,029	9,570
Inventories	33,077	28,907
Deferred tax asset (Note 7)	8,879	4,896
Other current assets (Notes 3 and 4)	3,625	1,034
	251,778	273,169
Property, Plant, and Equipment, at Cost, Net (Notes 3 and 4)	29,582	30,494
Other Assets (Notes 4 and 5)	13,755	17,044
Goodwill (Note 4)	119,100	121,870
	$414,215	$442,577

Consolidated Balance Sheet (continued)

(In thousands except share amounts)	2000	1999
Liabilities and Shareholders' Investment		
Current Liabilities:		
Current maturities of long-term obligations (Notes 4 and 8)	$ 562	$ 380
Accounts payable	21,921	21,957
Accrued payroll and employee benefits	7,727	8,659
Customer deposits	7,076	3,242
Accrued warranty costs	5,666	5,005
Billings in excess of contract costs and fees	1,241	4,730
Other accrued expenses (Notes 3 and 11)	16,178	20,322
Common stock of subsidiary subject to redemption ($17,026 and $49,788 redemption value; Notes 1 and 12)	17,026	49,160
Due to parent company and affiliated companies	1,284	1,003
	78,681	114,458
Deferred Income Taxes and Other Deferred Items (Note 7)	8,042	6,365
Long-term Obligations:		
Subordinated convertible debentures (Notes 8 and 12)	153,000	153,000
Notes payable (Notes 4 and 8)	1,650	1,350
	154,650	154,350
Minority Interest (Note 3)	2,209	3,334
Commitments and Contingencies (Note 10)		
Shareholders' Investment (Notes 5 and 6):		
Common stock, $.01 par value, 150,000,000 shares authorized; 63,662,276 and 63,537,556 shares issued	637	635
Capital in excess of par value	76,721	77,411
Retained earnings	133,522	118,380
Treasury stock at cost, 2,275,732 and 2,327,521 shares	(20,758)	(21,239)
Deferred compensation	(36)	(66)
Accumulated other comprehensive items (Note 15)	(19,453)	(11,051)
	170,633	164,070
	$414,215	$442,577

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

Consolidated Statement of Cash Flows

(In thousands)	2000	1999	1998
Operating Activities			
Net income	$ 15,142	$ 17,778	$ 17,995
Adjustments to reconcile net income to net cash provided by operating activities:			
Cumulative effect of change in accounting principle, net of income taxes (Note 16)	870	-	-
Depreciation and amortization	9,540	8,928	8,492
Provision for losses on accounts receivable	1,197	234	248
Minority interest (income) expense	(576)	921	999
Gain on sale of business (Note 4) and property	(1,700)	(11,154)	(536)
Noncash restructuring and unusual items (Note 11)	(506)	3,239	-
Deferred income tax expense	108	1,572	2,090
Other noncash items	(246)	(105)	314
Changes in current accounts, excluding the effects of acquisitions and dispositions:			
Accounts receivable	1,021	(4,448)	3,702
Inventories and unbilled contract costs and fees	(1,436)	(7,445)	3,277
Other current assets	(3,791)	448	836
Accounts payable	1,049	3,039	(5,787)
Other current liabilities	(2,234)	4,198	307
Net cash provided by operating activities	18,438	17,205	31,937
Investing Activities			
Acquisitions, net of cash acquired (Note 4)	(3,302)	(2,607)	(964)
Acquisition of capital equipment and technology (Note 3)	(1,200)	(500)	-
Proceeds from sale of business and property, net of cash divested (Note 4)	4,109	13,592	-
Advances to affiliate, net	88,076	(93,780)	-
Purchases of available-for-sale investments	(132,058)	(61,825)	(70,882)
Proceeds from maturities of available-for-sale investments	92,424	63,565	51,470
Proceeds from sale of available-for-sale investments	-	-	7,730
Purchases of property, plant, and equipment	(6,355)	(3,903)	(7,773)
Proceeds from sale of property, plant, and equipment	252	414	1,586
Advances under notes receivable (Note 4)	-	-	(2,910)
Proceeds from repayment of notes receivable (Note 4)	800	-	1,250
Refund of acquisition purchase price (Note 4)	-	377	-
Other	(295)	(160)	(458)
Net cash provided by (used in) investing activities	$ 42,451	$ (84,827)	$ (20,951)

Consolidated Statement of Cash Flows (continued)

(In thousands)	2000	1999	1998
Financing Activities			
Redemption of subsidiary common stock (Note 1)	$ (34,603)	$ -	$ -
Purchases of Company and subsidiary common stock	-	(5,804)	(6,598)
Purchases of subsidiary common stock from Thermo Electron	-	(2,227)	-
Net proceeds from issuance of Company and subsidiary common stock (Note 1)	1,204	551	405
Repayment of long-term obligations	(313)	-	-
Net cash used in financing activities	(33,712)	(7,480)	(6,193)
Exchange Rate Effect on Cash	(3,970)	(1,116)	(969)
Increase (Decrease) in Cash and Cash Equivalents	23,207	(76,218)	3,824
Cash and Cash Equivalents at Beginning of Year	39,254	115,472	111,648
Cash and Cash Equivalents at End of Year	$ 62,461	$ 39,254	$ 115,472
Cash Paid For			
Interest	$ 7,041	$ 6,913	$ 6,917
Income taxes	$ 11,779	$ 6,559	$ 5,431
Noncash Activities (Notes 3 and 4)			
Fair value of assets of acquired companies, capital equipment, and technology	$ 6,345	$ 10,135	$ 1,161
Cash paid for acquired companies, capital equipment, and technology	(3,889)	(3,160)	(964)
Payable for acquired companies, capital equipment, and technology	(795)	(3,430)	-
Equity interest in subsidiary transferred for capital equipment and technology	-	(3,075)	-
Liabilities assumed of acquired companies	$ 1,661	$ 470	$ 197

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

Consolidated Statement of Comprehensive Income and Shareholders' Investment

(In thousands)	2000	1999	1998
Comprehensive Income			
Net Income	$ 15,142	$ 17,778	$ 17,995
Other Comprehensive Items (Note 15):			
Foreign currency translation adjustment	(8,465)	(3,279)	(185)
Unrealized gain (loss) on available-for-sale investments, net of taxes and reclassification adjustment	63	(39)	(32)
	(8,402)	(3,318)	(217)
	$ 6,740	$ 14,460	$ 17,778
Shareholders' Investment			
Common Stock, $.01 Par Value:			
Balance at beginning of year	$ 635	$ 634	$ 633
Activity under employees' and directors' stock plans	2	1	1
Balance at end of year	637	635	634
Capital in Excess of Par Value:			
Balance at beginning of year	77,411	78,731	81,865
Activity under employees' and directors' stock plans	165	(1,916)	(4,401)
Tax benefit related to employees' and directors' stock plans	512	513	1,267
Effect of majority-owned subsidiary's equity transactions	(1,367)	83	-
Balance at end of year	76,721	77,411	78,731
Retained Earnings:			
Balance at beginning of year	118,380	100,602	82,607
Net income	15,142	17,778	17,995
Balance at end of year	133,522	118,380	100,602
Treasury Stock:			
Balance at beginning of year	(21,239)	(21,286)	(19,494)
Purchases of Company common stock	-	(2,511)	(6,598)
Activity under employees' and directors' stock plans	481	2,558	4,806
Balance at end of year	(20,758)	(21,239)	(21,286)
Deferred Compensation:			
Balance at beginning of year	(66)	-	-
Issuance of restricted stock under employees' stock plans (Note 5)	-	(91)	-
Amortization of deferred compensation	30	25	-
Balance at end of year	(36)	(66)	-
Accumulated Other Comprehensive Items (Note 15):			
Balance at beginning of year	(11,051)	(7,733)	(7,516)
Other comprehensive items	(8,402)	(3,318)	(217)
Balance at end of year	(19,453)	(11,051)	(7,733)
	$170,633	$164,070	$150,948

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) operates in two segments: (1) Pulp and Papermaking Equipment and Systems and (2) Water- and Fiber-recovery Services and Products. Through its Pulp and Papermaking Equipment and Systems segment, the Company develops, manufactures, and markets a range of equipment and products for the domestic and international papermaking 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. subsidiary comprises the Water- and Fiber-recovery Services and Products segment and develops, manufactures, and markets fiber-based composite products for the building industry. In addition, Thermo Fibergen also 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 December 30, 2000, Thermo Electron owned 55,627,480 shares of the Company's common stock, representing 91% of such stock outstanding.

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. In February 2001, Thermo Electron received a favorable ruling from the Internal Revenue Service regarding the spin off. The IRS required that the spin off be completed within one year of the ruling, and, subject to certain conditions, that the Company raise additional equity capital in a public offering within one year of the spin off. The Company plans to issue equity in the range of 10 to 20 percent of its outstanding shares to support its current business plan, which includes the repayment of debt, acquisitions, strategic partnerships, and investment in additional capacity for its composites business. Thermo Electron has announced that it expects to distribute the Thermo Fibertek dividend in the second half of 2001. The spin off will require Thermo Electron Board of Director actions and other customary conditions. Following the spin off, Thermo Electron will continue to guarantee, in each case on a subordinated basis, the Company's $153,000,000 principal amount of 4 1/2% subordinated convertible debentures due 2004 and Thermo Fibergen's remaining obligation under its redemption rights.

Principles of Consolidation

The accompanying financial statements include the accounts of the Company, its wholly owned subsidiaries, its 91%-owned public subsidiary Thermo Fibergen, 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 2000, 1999, and 1998 are for the fiscal years ended December 30, 2000, January 1, 2000, and January 2, 1999, respectively. The Company's E. & M. Lamort, S.A. subsidiary, based in France, has a fiscal year ending on November 30 to allow sufficient time for the Company to receive their financial statements.

Revenue Recognition

Prior to 2000, the Company generally recognized revenues upon shipment of its products. During the fourth quarter of 2000, effective as of January 2, 2000, the Company adopted Securities and Exchange Commission (SEC) Staff Accounting Bulletin (SAB) No. 101 "Revenue Recognition in Financial Statements." Under SAB No. 101, revenues for products that are sold subject to customer acceptance provisions for which compliance with those provisions cannot be demonstrated until a point in time subsequent to delivery are recognized upon customer acceptance. Revenues for products that are sold subject to installation for which the installation is essential to

Notes to Consolidated Financial Statements

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

functionality or not deemed inconsequential or perfunctory are recognized upon completion of installation. Revenues for products where installation is not essential to functionality, and is deemed inconsequential, or perfunctory, are recognized upon shipment with estimated installation costs accrued (Note 16). The Company provides a reserve for its estimate of warranty and installation costs at the time revenue is recognized.

In addition, revenues and profits on certain long-term contracts are recognized using the percentage-of-completion method. Revenues recorded under the percentage-of-completion method were $43,440,000 in 2000, $40,689,000 in 1999, and $45,114,000 in 1998. 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, its Fiberprep subsidiary, and Thermo Fibergen's NEXT Fiber Products subsidiary, 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. Prior to Thermo Fibergen's September 2000 redemption of common stock (Note 1), the Company's ownership of outstanding shares of Thermo Fibergen's common stock was less than 80% and Thermo Fibergen filed its own income tax return.

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.

Notes to Consolidated Financial Statements

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

The Company, along with certain 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 $1,637,000 line of credit under this arrangement. At year-end 2000 and 1999, the Company had invested $10,356,000 and $6,732,000, respectively, under this arrangement. In connection with the spin off from Thermo Electron, this arrangement will cease.

At year-end 2000 and 1999, the Company's cash equivalents included investments in commercial paper, U.S. government-agency and U.S. Treasury securities, 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

From June 1999 to August 2000, the Company participated in a new domestic cash management arrangement with Thermo Electron. Under the arrangement, amounts advanced to Thermo Electron by the Company for domestic cash management purposes earned interest at the 30-day Dealer Commercial Paper Rate plus 50 basis points, set at the beginning of each month. Thermo Electron was 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 had the contractual right to withdraw its funds invested in the cash management arrangement upon 30 days' prior notice. Effective August 2000, the Company no longer participates in the domestic cash management arrangement.

In addition, one of the Company's European-based subsidiaries continues to participate in a cash management arrangement with a wholly owned subsidiary of Thermo Electron on terms similar to the domestic cash management arrangement. In connection with the spin off from Thermo Electron, this arrangement will cease.

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)	2000	1999
Raw Materials and Supplies	$13,218	$12,088
Work in Process	4,825	6,122
Finished Goods (includes $3,765 at customer locations in 2000)	15,034	10,697
	$33,077	$28,907

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.

Notes to Consolidated Financial Statements

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

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)	2000	1999
Land	$ 2,756	$ 2,886
Fiber-recovery and Water-clarification Facility	-	3,573
Buildings	19,472	19,676
Machinery, Equipment, and Leasehold Improvements	45,418	41,669
	67,646	67,804
Less: Accumulated Depreciation and Amortization	38,064	37,310
	$29,582	$30,494

Other Assets

Other assets in the accompanying balance sheet includes intangible assets, notes receivable (Note 4), and deferred debt expense. Intangible assets includes the costs of patents, acquired intellectual property, and noncompete agreements entered into in connection with acquisitions, 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 $9,594,000 and $10,676,000, net of accumulated amortization of $2,542,000 and $1,328,000 at year-end 2000 and 1999, respectively.

Goodwill

Goodwill is amortized using the straight-line method principally over 40 years. Accumulated amortization was $16,105,000 and $12,642,000 at year-end 2000 and 1999, respectively. The Company assesses the future useful life of this asset and other noncurrent assets 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. During the month of September 2000, the initial redemption period, holders of Thermo Fibergen's common stock and common stock redemption rights surrendered 2,713,951 shares of Thermo Fibergen's common stock at a redemption price of $12.75 per share, for a total of $34,603,000. Thermo Fibergen used available working capital to fund the payment and retired these shares immediately following the redemption. Holders of a redemption right have the option to require Thermo

Notes to Consolidated Financial Statements

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Fibergen to redeem one share of Thermo Fibergen's common stock at $12.75 per share in September 2001, the second and final redemption period. A redemption right may only be exercised if the holder owns a share of Thermo Fibergen's common stock at that time. As of December 30, 2000, there were 2,001,049 redemption rights outstanding and 1,075,749 shares of Thermo Fibergen's common stock held by persons other than the Company or Thermo Electron. In addition, Thermo Electron, the Company and/or Thermo Fibergen may acquire shares of Thermo Fibergen's common stock in the open market. To the extent the number of redemption rights exceeds the number of shares of common stock held by persons other than Thermo Electron or the Company, the maximum redemption value that Thermo Fibergen would be required to pay is an amount equal to the redemption price of $12.75 per share times the total number of shares of Thermo Fibergen's common stock outstanding held by persons other than Thermo Electron or the Company at the time of the redemption. 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 was accreted over the period ending September 2000, which corresponded with the first redemption period. The accretion was 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. In addition, the Company has agreed to lend Thermo Fibergen up to $5 million on commercially reasonable terms for the September 2001 redemption obligation and for working capital needs.

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, French francs, 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

During 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". SFAS No. 133, as amended, requires that all derivatives, including foreign currency exchange contracts, be recognized on the balance sheet at fair value. Changes in fair value of derivatives that are not hedges must be recorded through earnings. If a derivative is a hedge, depending on the nature of the hedge, changes in fair value of the derivative are either completely or partially offset by the change in fair value of the hedged items through earnings or for anticipated transactions recognized in other comprehensive income until the hedged item is recognized in earnings. The Company is required to adopt SFAS No. 133 in 2001. The Company does not expect the adoption of SFAS No. 133 will materially affect its financial statements.

Notes to Consolidated Financial Statements

1. Nature of Operations and Summary of Significant Accounting Policies (continued)

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

Debt securities owned by the Company 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
2000				
Government-agency Securities	$28,541	$28,531	$ 10	$ -
Corporate Bonds	57,596	57,573	23	-
	$86,137	$86,104	$ 33	$ -
1999				
Government-agency Securities	$46,074	$46,139	$ -	$ (65)
Other	331	331	-	-
	$46,405	$46,470	$ -	$ (65)

Available-for-sale investments in the accompanying 2000 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

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, used for applications such as soundwalls, decking, privacy fencing, and siding. 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. Thermo Fibergen paid $1,200,000 and $500,000 of the purchase price in 2000 and 1999, respectively. The $500,000 remaining obligation is expected to be paid in 2001 and is included in other accrued liabilities in the accompanying 2000 balance sheet. In January 2001, Thermo Fibergen

3. Composites Venture (continued)

acquired the remaining 49% equity interest in NEXT Fiber Products. In exchange for the 49% equity interest, Thermo Fibergen agreed to forgive certain amounts due from the seller related to the seller's investment in NEXT Fiber Products prior to the purchase of the remaining 49% equity interest.

Thermo Fibergen constructed a composites manufacturing facility in Green Bay, Wisconsin, and began limited production at such facility in 2000.

4. Acquisitions and Dispositions

Acquisitions

In June 2000, the Company acquired Cyclotech AB-Stockholm, a Swedish manufacturer of stock-preparation equipment, for $637,000 in cash, subject to a post-closing adjustment. Of the total purchase price, $478,000 was paid at closing and the remaining $159,000, which is included in other accrued expenses in the accompanying 2000 balance sheet, will be paid one year from the date of acquisition. The cost of this acquisition exceeded the estimated fair value of the acquired net assets by $578,000, which is being amortized over 40 years.

In February 2000, the Company acquired the assets of Gauld Equipment Manufacturing Company, Inc., a manufacturer of stock-preparation equipment, for $3,411,000 in cash and a $923,000 noninterest bearing contract with a controlling shareholder, payable in equal annual installments over four years. The liability was initially recorded at its net present value of $795,000. The cost of this acquisition exceeded the estimated fair value of the acquired net assets by $2,128,000, which is being amortized over 40 years.

In May 1999, the Company acquired the outstanding stock of Arcline Products, Inc., 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 Inc., 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 goodwill. 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.

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 and, for the 2000 acquisitions, is subject to adjustment upon finalization of the purchase price allocations. To date, no information has been gathered that would cause the Company to believe that the final allocation of the purchase price will be materially different from the preliminary estimates. Pro forma results have not been presented, as the results of the acquired businesses were not material to the Company's results of operations.

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 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.

4. Acquisitions and Dispositions (continued)

A summary of the changes in accrued acquisition expenses follows:

(In thousands)	Abandoned Facilities Thermo Black Clawson	Severance Goselin	Severance Thermo Black Clawson	Total
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 goodwill	-	-	(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 goodwill	-	(80)	-	(80)
Balance at January 1, 2000	$ -	$ -	$ -	$ -

Dispositions

In September 2000, Thermo Fibergen sold substantially all of the assets of its fiber-recovery and water-clarification services plant to the host mill for $3,600,000. The purchase price consisted of an initial payment of $200,000 at the date of closing and a note receivable to be paid in seventeen monthly payments of $200,000, plus interest at 9.5%, beginning September 28, 2000. The note receivable is secured by an irrevocable letter of credit. Thermo Fibergen recognized a pre-tax gain of $729,000 on the sale.

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 did not proceed as a result of Tree-Free's insolvency. Tree-Free was unable to repay the note upon its original maturity. The note and loans by another lender were secured by 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 another 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 then-estimated recoverable value. 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. The Company sold its interest in the mill in June 2000 for $3,909,000 in cash, resulting in a gain of $971,000.

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.

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 were not able to 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.

5. Employee Benefit Plans (continued)

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

(Shares in thousands)	2000 Number of Shares	2000 Weighted Average Exercise Price	1999 Number of Shares	1999 Weighted Average Exercise Price	1998 Number of Shares	1998 Weighted Average Exercise Price
Options Outstanding, Beginning of Year	3,055	$ 6.57	3,489	$ 6.00	3,988	$ 6.24
Granted	2	6.66	161	7.30	957	6.82
Exercised	(149)	3.78	(539)	3.08	(646)	3.11
Forfeited	(233)	6.13	(56)	6.55	(120)	9.23
Canceled due to exchange	-	-	-	-	(690)	10.68
Options Outstanding, End of Year	2,675	$ 6.77	3,055	$ 6.57	3,489	$ 6.00
Options Exercisable	2,675	$ 6.77	3,055	$ 6.57	3,486	$ 6.00
Options Available for Grant	1,563		1,332		1,449	

A summary of the status of the Company's stock options at December 30, 2000, is as follows:

Range of Exercise Prices	Options Outstanding and Exercisable: Number of Shares (In thousands)	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
$ 3.00 - $ 5.83	1,050	2.6 years	$ 4.38
5.84 - 8.67	1,078	4.2 years	6.75
8.68 - 11.51	517	5.7 years	11.22
11.52 - 14.35	30	7.1 years	14.32
$ 3.00 - $14.35	2,675	3.9 years	$ 6.77

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. Under this program, shares of the Company's and, prior to November 2000, shares of 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. Effective November 2000, employees may no longer purchase shares of Thermo Electron under this program. During 2000 and 1999, the Company issued 31,520 and 18,000 shares, respectively, of its common stock under this program. No shares of the Company's common stock were issued under this program during 1998.

Notes to Consolidated Financial Statements

5. Employee Benefit Plans (continued)

Pro Forma Stock-based Compensation Expense

In October 1995, the FASB 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)	2000	1999	1998
Net Income:			
As reported	$15,142	$17,778	$17,995
Pro forma	14,198	16,265	16,668
Basic Earnings per Share:			
As reported	.25	.29	.29
Pro forma	.23	.27	.27
Diluted Earnings per Share:			
As reported	.25	.29	.29
Pro forma	.23	.26	.27

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 $1.10, $2.69, and $2.32 in 2000, 1999, and 1998, 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:

	2000	1999	1998
Volatility	42%	39%	35%
Risk-free Interest Rate	4.9%	5.6%	4.6%
Expected Life of Options	1.0 years	3.8 years	4.2 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

Effective November 2000, the majority of the Company's domestic subsidiaries participate in the Company's 401(k) retirement savings plan and, prior to November 2000, 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 $803,000, $761,000, and $974,000 in 2000, 1999, and 1998, 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 $812,000, $959,000, and $1,119,000 in 2000, 1999, and 1998, respectively.

Defined Benefit Pension Plan

One of the Company's divisions has a noncontributory defined benefit retirement plan. Benefits under the plan are based on years of service and employees' compensation. Funds are contributed to a trustee as necessary to provide for current service and for any unfunded projected benefit obligation over a reasonable period.

Net periodic benefit income includes:

(In thousands)	2000	1999	1998
Interest Cost	$ 902	$ 823	$ 802
Service Cost	496	439	421
Expected Return on Plan Assets	(1,884)	(1,588)	(1,375)
Amortization of Unrecognized Gain	(380)	(431)	(328)
	$ (866)	$ (757)	$ (480)

The Company's defined benefit pension plan activity is:

(In thousands)	2000	1999
Change in Benefit Obligation:		
Benefit obligation, beginning of year	$11,797	$10,771
Interest cost	902	823
Service costs	496	439
Benefits paid	(525)	(458)
Actuarial gain	-	222
Benefit obligation, end of year	12,670	11,797
Change in Plan Assets:		
Fair value of plan assets, beginning of year	20,638	19,485
Actual return on plan assets	(709)	1,611
Benefits paid	(525)	(458)
Fair value of plan assets, end of year	19,404	20,638
Funded Status	6,734	8,841
Unrecognized Net Gain	(4,877)	(7,850)
Prepaid Benefit Costs	$ 1,857	$ 991

5. Employee Benefit Plans (continued)

Plan assets are primarily invested in cash, cash equivalents, fixed income securities, and equity securities. Prepaid benefit costs are included in other assets in the accompanying balance sheet. The weighted average actuarial assumptions used to determine the net periodic benefit costs were: discount rate of 7.5% and rate of increase in salary levels of 5.5% in 2000, 1999, and 1998; expected long-term rate of return on assets of 9.25% in 2000 and 8.25% in 1999 and 1998.

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 $1,195,000, $779,000, and $1,285,000 in 2000, 1999, and 1998, respectively.

6. Common Stock

At December 30, 2000, the Company had reserved 18,317,758 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)	2000	1999	1998
Domestic	$13,914	$21,802	$19,751
Foreign	12,469	8,749	11,145
	$26,383	$30,551	$30,896

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

(In thousands)	2000	1999	1998
Currently Payable:			
Federal	$ 5,594	$ 5,870	$ 4,491
Foreign	4,299	3,409	4,282
State	946	1,001	1,039
	10,839	10,280	9,812
Net Deferred (Prepaid):			
Federal	569	1,600	1,939
Foreign	(177)	(353)	(71)
State	(284)	325	222
	108	1,572	2,090
	$10,947	$11,852	$11,902

Notes to Consolidated Financial Statements

7. Income Taxes (continued)

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 $512,000, $513,000, and $1,267,000 of such benefits from exercises of stock options that have been allocated to capital in excess of par value in 2000, 1999, and 1998, 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, minority interest, and cumulative effect of change in accounting principle due to the following:

(In thousands)	2000	1999	1998
Provision for Income Taxes at Statutory Rate	$ 9,234	$10,693	$10,814
Increases (Decreases) Resulting From:			
State income taxes, net of federal tax	577	805	820
Foreign tax rate and tax regulation differential	(242)	(227)	310
Nondeductible expenses	497	253	178
Change in valuation allowance	174	50	203
Other	707	278	(423)
	$10,947	$11,852	$11,902

Net deferred income tax asset (liability) in the accompanying balance sheet consist of the following:

(In thousands)	2000	1999
Deferred Tax Asset (Liability):		
Operating loss carryforwards	$ 1,045	$ 253
Reserves and accruals	4,972	3,082
Inventory basis difference	2,168	1,243
Accrued compensation	175	429
Allowance for doubtful accounts	361	128
Amortization of intangible assets	(4,839)	(3,203)
Depreciation	(1,360)	(980)
Other	(60)	(728)
	2,462	224
Less: Valuation allowance	427	253
	$ 2,035	$ (29)

The valuation allowance relates primarily to uncertainty surrounding the realization of state operating loss carryforwards of $3,900,000 and $2,700,000 at year-end 2000 and 1999, respectively, which begin to expire in 2003. In addition, the Company has federal operating loss carryforwards of $2,000,000 at year-end 2000, which begin to expire in 2019.

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.

Notes to Consolidated Financial Statements

7. Income Taxes (continued)

A provision has not been made for U.S. or additional foreign taxes on $72.3 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 February 2000 acquisition of Gauld Equipment, the Company agreed to pay $923,000 in equal annual installments over four years. The liability was initially recorded as its net present value of $795,000.

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 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.

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. For these services, the Company was charged $1,879,000, $1,824,000, and $1,979,000 in 2000, 1999, and 1998, 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 has, from time to time, invested 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 $2,257,000, $1,767,000, and $1,862,000 in 2000, 1999, and 1998, respectively. The future minimum payments due under noncancelable operating leases as of December 30, 2000, are $935,000 in 2001; $590,000 in 2002; $270,000 in 2003; $194,000 in 2004; and $6,000 in 2005. Total future minimum lease payments are $1,995,000.

10. Commitments and Contingencies (continued)

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 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 2000, due to breach of an agreement by a third party distributor, the Company is no longer obligated to pay amounts accrued in 1999 for this matter and, therefore, reversed $506,000 of 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 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
Usage	(15)	(18)	(33)
Reversal	-	(506)	(506)
Currency translation	-	(98)	(98)
Balance at December 30, 2000	$ -	$ 32	$ 32

The Company expects to pay the remaining accrued restructuring costs in 2001.

Notes to Consolidated Financial Statements

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 maturities of notes payable, accounts payable, common stock of subsidiary subject to redemption, due to parent company and affiliated companies, subordinated convertible debentures, notes payable, and forward foreign exchange contracts. The carrying amounts of accounts receivable, current maturities of notes 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:

	2000		1999	
(In thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Subordinated Convertible Debentures	$153,000	$138,312	$153,000	$124,710
Common Stock of Subsidiary Subject to Redemption	$ 17,026	$ 15,858	$ 49,160	$ 51,011
Off-balance-sheet Financial Instruments:				
Forward foreign exchange contracts payable		$ 348		$ 35

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 $12,474,000 and $4,080,000 at year-end 2000 and 1999, 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, one of which was sold in February 1999: 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 stock-preparation equipment, paper machine 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 $112,976,000, $98,929,000, and $107,518,000 in 2000, 1999, and 1998, respectively. Revenues from the accessories product line were $70,306,000, $74,839,000, and $77,817,000 in 2000, 1999, and 1998, respectively. Revenues from the water-management product line were $42,447,000, $42,611,000, and $36,908,000 in 2000, 1999, and 1998, respectively.

The Dryers and Pollution-control Equipment segment, which consisted of the Company's Thermo Wisconsin 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 4).

Notes to Consolidated Financial Statements

13. Business Segment and Geographical Information (continued)

The Water- and Fiber-recovery Services and Products segment consists of the Company's Thermo Fibergen subsidiary. 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, and cat box fillers. In addition, through its NEXT Fiber Products subsidiary (Note 3), Thermo Fibergen develops, produces, and markets fiber-based composites primarily for the building industry, used for applications such as soundwalls, decking, privacy fencing, and siding. Prior to September 2000, this segment owned and operated a plant that provided fiber-recovery and water-clarification services to a host mill on a long-term contract basis. The plant, which the Company began operating in July 1998, cleaned and recycled water and long fiber for reuse in the papermaking process. Thermo Fibergen sold this plant to the host mill in September 2000 (Note 4), although it intends to continue operating in this line of business and is pursuing other fiber-recovery projects.

(In thousands)	2000	1999	1998
Business Segment Information			
Revenues:			
Pulp and Papermaking Equipment and Systems (a)	$227,133	$217,724	$223,799
Dryers and Pollution-control Equipment (b)	-	1,802	19,513
Water- and Fiber-recovery Services and Products (c)	7,794	8,579	5,276
Intersegment sales elimination (d)	(14)	(69)	(1,162)
	$234,913	$228,036	$247,426
Income Before Provision for Income Taxes, Minority Interest, and Cumulative Effect of Change in Accounting Principle:			
Pulp and Papermaking Equipment and Systems (e)	$ 29,209	$ 27,061	$ 33,937
Dryers and Pollution-control Equipment (b)(f)	-	11,609	2,736
Water- and Fiber-recovery Services and Products (c)(g)	(3,116)	(1,010)	(2,468)
Corporate (h)	(2,673)	(8,138)	(3,857)
Total operating income	23,420	29,522	30,348
Interest income, net	2,963	1,029	548
	$ 26,383	$ 30,551	$ 30,896
Total Assets:			
Pulp and Papermaking Equipment and Systems	$280,655	$282,837	$277,688
Dryers and Pollution-control Equipment (b)	-	-	5,390
Water- and Fiber-recovery Services and Products (c)	38,465	72,438	71,116
Corporate (i)	95,095	87,302	72,906
	$414,215	$442,577	$427,100
Depreciation and Amortization:			
Pulp and Papermaking Equipment and Systems	$ 7,314	$ 7,502	$ 7,188
Dryers and Pollution-control Equipment (b)	-	16	153
Water- and Fiber-recovery Services and Products (c)	2,226	1,410	1,151
	$ 9,540	$ 8,928	$ 8,492

13. Business Segment and Geographical Information (continued)

(In thousands)	2000	1999	1998
Capital Expenditures:			
Pulp and Papermaking Equipment and Systems	$ 2,550	$ 2,964	$ 3,442
Dryers and Pollution-control Equipment (b)	-	-	197
Water- and Fiber-recovery Services and Products	3,805	939	4,134
	$ 6,355	$ 3,903	$ 7,773
Geographical Information			
Revenues (j):			
United States	$157,904	$142,800	$153,658
France	52,895	60,682	65,308
Other	33,427	33,477	39,636
Transfers among geographic areas (d)	(9,313)	(8,923)	(11,176)
	$234,913	$228,036	$247,426
Long-lived Assets (k):			
United States	$ 22,213	$ 23,948	$ 27,232
France	3,291	4,483	5,381
Other	4,422	4,711	4,844
	$ 29,926	$ 33,142	$ 37,457
Export Revenues Included in United States Revenues Above (l)	$ 37,926	$ 23,366	$ 24,244

(a) Includes intersegment sales of $0.5 million in 1998.
(b) Includes intersegment sales of $0.6 million in 1998. The Company sold this segment in February 1999.
(c) Reflects Thermo Fibergen's September 2000 redemption of common stock for $34.6 million and the sale of the Company's fiber-recovery and water-clarification services plant in September 2000.
(d) Intersegment sales and transfers among geographic areas are accounted for at prices that are representative of transactions with unaffiliated parties.
(e) Includes $0.5 million of income related to restructuring and unusual items in 2000 and $3.1 million of restructuring and unusual costs in 1999.
(f) Includes $11.2 million of gain on sale of business in 1999.
(g) Includes gain on sale of plant of $0.7 million in 2000.
(h) Includes gain on sale of property of $1.0 million in 2000. 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.
(i) Primarily available-for-sale investments.
(j) Revenues are attributed to countries based on selling location. (k) Includes property, plant, and equipment, net, and other long-term tangible assets. (l) In general, export revenues are denominated in U.S. dollars.

Notes to Consolidated Financial Statements

14. Earnings per Share

Basic and diluted earnings per share were calculated as follows:

(In thousands except per share amounts)	2000	1999	1998
Basic			
Income Before Cumulative Effect of Change in Accounting Principle	$16,012	$17,778	$17,995
Cumulative Effect of Change in Accounting Principle (net of income taxes of $580)	(870)	-	-
Net Income	$15,142	$17,778	$17,995
Weighted Average Shares	61,298	61,186	61,612
Basic Earnings per Share:			
Income Before Cumulative Effect of Change in Accounting Principle	$ .26	$ .29	$ .29
Change in Accounting Principle	(.01)	-	-
	$ .25	$ .29	$ .29
Diluted			
Income Before Cumulative Effect of Change in Accounting Principle	$16,012	$17,778	$17,995
Cumulative Effect of Change in Accounting Principle (net of income taxes of $580)	(870)	-	-
Net Income	15,142	17,778	17,995
Effect of Majority-owned Subsidiary's Dilutive Securities	(7)	(48)	(33)
Income Available to Common Shareholders, as Adjusted	$15,135	$17,730	$17,962
Weighted Average Shares	61,298	61,186	61,612
Effect of Stock Options	192	373	741
Weighted Average Shares, as Adjusted	61,490	61,559	62,353
Diluted Earnings per Share:			
Income Before Cumulative Effect of Change in Accounting Principle	$ .26	$ .29	$ .29
Change in Accounting Principle	(.01)	-	-
	$ .25	$ .29	$ .29

Options to purchase 2,179,000, 908,000, and 601,000 shares of common stock were not included in the computation of diluted earnings per share for 2000, 1999, and 1998, 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 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.

Notes to Consolidated Financial Statements

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.

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

(In thousands)	2000	1999
Cumulative Translation Adjustment	$(19,474)	$(11,009)
Net Unrealized Gain (Loss) on Available-for-sale Investments	21	(42)
	$(19,453)	$(11,051)

16. Adoption of SAB No. 101

In December 1999, the SEC issued SAB No. 101. SAB No. 101 establishes criteria for recording revenue when the terms of the sale include customer acceptance provisions or an obligation of the seller to install the product. In instances where these terms exist and the Company is unable to demonstrate that the customer's acceptance criteria has been met prior to customer use or when the installation is essential to functionality or is not deemed inconsequential or perfunctory, SAB No. 101 requires that revenue recognition occur at completion of installation and/or upon customer acceptance. In accordance with the requirements of SAB No. 101, the Company has adopted the pronouncement as of January 2, 2000, and has recorded the cumulative effect of the change in accounting principle in the restated results for the first quarter of 2000. The cumulative effect on net income totaled $870,000, net of income taxes of $580,000. Revenues of $3,004,000 in 2000 (as restated for the adoption of SAB No. 101) relate to shipments that occurred in 1999 but for which installation and/or acceptance did not occur until 2000. These revenues were recorded in 1999 prior to the adoption of SAB No. 101 and thus were a component in the determination of the cumulative effect of the change in accounting principle for periods prior to 2000. The Company has not provided pro forma data for 1999 and 1998 as the amounts are not readily determinable based on the nature of the revenue adjustments required by SAB No. 101.

Notes to Consolidated Financial Statements

16. Adoption of SAB No. 101 (continued)

The Company's unaudited quarterly results for 2000 have been restated as follows:

(In thousands except per share amounts) (Unaudited)	First	Second	Third
Revenues:			
As previously reported	$60,829	$61,647	$56,997
As adjusted	57,922	60,565	58,315
Gross Profit:			
As previously reported	24,401	23,201	21,513
As adjusted	23,315	22,635	22,022
Income Before Cumulative Effect of Change in Accounting Principle:			
As previously reported	4,062	4,269	4,077
As adjusted	3,560	3,910	4,332
Net Income:			
As previously reported	4,062	4,269	4,077
As adjusted	2,690	3,910	4,332
Basic and Diluted Earnings per Share Before Cumulative Effect of Change in Accounting Principle:			
As previously reported	.07	.07	.07
As adjusted	.06	.06	.07
Basic and Diluted Earnings per Share:			
As previously reported	.07	.07	.07
As adjusted	.04	.06	.07

Notes to Consolidated Financial Statements

17. Unaudited Quarterly Information

(In thousands except per share amounts)

2000	First (a)	Second (a,b)	Third	Fourth (d)
Revenues	$57,922	$60,565	$58,315	$58,111
Gross Profit	23,315	22,635	22,022	21,830
Net Income	2,690	3,910	4,332	4,210
Basic and Diluted Earnings per Share Before Cumulative Effect of Change in Accounting Principle	.06	.06	.07	.07
Basic and Diluted Earnings per Share	.04	.06	.07	.07

1999	First (e)	Second	Third (f)	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

(a) Restated to reflect the adoption of SAB No. 101. The first quarter of 2000 reflects the cumulative effect of change in accounting principle of $0.9 million, net of income taxes of $0.6 million.
(b) Reflects a pretax gain of $1.0 million on the June 2000 sale of property.
(c) Reflects a pretax gain of $0.7 million on the September 2000 sale of the Company's fiber-recovery and water-clarification services plant.
(d) Reflects $0.5 million of pretax income related to restructuring and unusual items.
(e) Reflects a pretax gain of $11.2 million on the February 1999 disposition of Thermo Wisconsin, Inc. and restructuring costs and unusual items of $3.4 million.
(f) Reflects pretax restructuring costs of $2.8 million.

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 December 30, 2000, and January 1, 2000, 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 December 30, 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 auditing standards generally accepted in the United States. 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 December 30, 2000 and January 1, 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 30, 2000, in conformity with accounting principles generally accepted in the United States.

As explained in Notes 1 and 16 to the consolidated financial statements, effective January 2, 2000, the Company changed its method of accounting for revenue recognition.

Arthur Andersen LLP

Boston, Massachusetts
February 12, 2001

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

Industry Background

The Company operates in two segments: Pulp and Papermaking Equipment and Systems and Water- and Fiber-recovery Services and Products. The Company's products are primarily sold to the paper industry. The paper industry has been in a severe down cycle since 1996 with falling pulp and paper prices and decreased capital spending. As a consequence, the industry has gone through a major consolidation. As paper companies continue to consolidate, they frequently reduce capacity. This trend, along with the paper companies' actions to almost immediately suspend operations and restrict capital spending programs when they perceive weakness in their markets, has affected the Company's business and will continue to do so in the short term. The Company expects that there will continue to be a significant amount of downtime in the paper industry in the first half of 2001. This, coupled with the strong U.S. dollar, will continue to produce a weak market environment that will soften demand for the Company's products in the near term. The Company's results for the first half of 2001 will be affected by the ongoing weak market conditions in the paper industry. In the longer term, however, the Company expects the impact of these developments to be favorable both to the paper companies and their suppliers. Better capacity management will allow paper companies to better match products with market demand, which in turn will help the overall financial health of the Company's customers. The Company believes that this will eventually result in stronger markets for the Company's products and systems.

Pulp and Papermaking Equipment and Systems Segment

The Company's Pulp and Papermaking Equipment and Systems (Papermaking Equipment) segment designs and manufactures stock-preparation equipment, paper machine 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 for paper sheet and web formation. In 1999, this segment acquired the outstanding stock of Arcline Products, a manufacturer of shower and doctor oscillation systems (Note 4). In 2000, this segment acquired the assets of Gauld Equipment Manufacturing Company, Inc., a manufacturer of stock-preparation equipment, and Cyclotech AB-Stockholm, a Swedish manufacturer of stock-preparation equipment (Note 4).

Water- and Fiber-recovery Services and Products Segment

The Water- and Fiber-recovery Services and Products segment consists of the Company's Thermo Fibergen subsidiary. 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, and cat box fillers. Through Thermo Fibergen's NEXT Fiber Products Inc. subsidiary, formed in October 1999, Thermo Fibergen develops, produces, and markets fiber-based composite products primarily for the building industry, used for applications such as soundwalls, decking, privacy fencing, and siding. Thermo Fibergen is also developing composite roof tile products. In January 2001, the Company acquired the remaining 49% equity interest in

Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview (continued)

NEXT Fiber Products (Note 3). The Company constructed a composites manufacturing facility in Green Bay, Wisconsin, and began limited production at such facility in 2000. The Company is currently working to expand the capacity of the facility and expects to have the capacity to support $20 million in annual revenues by mid-2001. In addition, prior to September 2000, this segment owned and operated a plant that provided water-clarification and fiber-recovery services to a host mill on a long-term contract basis. The plant, which Thermo Fibergen began operating in July 1998, cleaned and recycled water and long fiber for reuse in the papermaking process. Thermo Fibergen sold this plant to the host mill in September 2000 (Note 4), although it intends to continue operating in this line of business and is pursuing other fiber-recovery projects.

Dryers and Pollution-control Equipment Segment

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. This segment 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 4).

Manufacturing Facilities

The Company's manufacturing facilities are principally located in North America 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.

International Sales

During 2000, approximately 49% 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, 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.

Results of Operations

2000 Compared With 1999

Revenues

Excluding the results of Thermo Wisconsin, which was sold in February 1999, revenues increased to $234.9 million in 2000 from $226.3 million in 1999. Thermo Wisconsin's revenues to external customers were $1.8 million in 1999. Gauld Equipment and Cyclotech, which were acquired in 2000 (Note 4), added revenues of $4.6 million during 2000. The inclusion for the full 2000 period of results from Arcline Products, which was acquired in May 1999, added incremental revenues of $0.8 million. The unfavorable effects of currency translation due to the strengthening in value of the U.S. dollar relative to other currencies in countries in which the Company operates decreased revenues at the Papermaking Equipment segment by $9.2 million in 2000. Excluding the results of

Management's Discussion and Analysis of Financial Condition and Results of Operations

2000 Compared With 1999 (continued)
acquisitions and the effect of currency translation, revenues in the Company's Papermaking Equipment segment increased $13.2 million, or 6%. Revenues from that segment's stock-preparation equipment product line increased $15.2 million as a result of a $15.7 million increase in sales by the Company's North American operations, due principally to greater demand, offset slightly by a decrease in sales in Europe, due to the general market weakness. The Company expects this trend to reverse in 2001, with relatively little growth from North America due to the stronger U.S. dollar and high energy costs, while Europe is expected to be somewhat stronger. In addition, the Company expects developing markets such as China to increase capacity for the next several years. Revenues from the Papermaking Equipment segment's accessories product line decreased $1.9 million as a result of decrease in demand in North America and Europe. Revenues from that segment's water management product line increased $0.3 million related to increased demand in Europe, largely offset by a decrease in demand in North America. The Water- and Fiber-recovery Services and Products segment revenues decreased $0.8 million, primarily due to decreased demand for cellulose-based products from that segment's largest customer, as well as a $0.4 million decrease as a result of the sale of the fiber-recovery and water-clarification services plant in September 2000 (Note 4). The Company expects to have increased sales of its recently introduced composite products in 2001.

Gross Profit Margin

The gross profit margin decreased to 38% in 2000 from 41% in 1999. The gross profit margin decreased at the Papermaking Equipment segment, primarily due to a change in product mix that resulted largely from a higher proportion of lower-margin large system sales at its North American stock-preparation equipment business. To a lesser extent, the gross profit margin decreased at the Water- and Fiber-recovery Services and Products segment, primarily due to decreased sales without a corresponding decrease in costs, an increase of approximately $0.6 million in the cost of natural gas in 2000, and the inclusion of $0.6 million of overhead costs at its new fiber-based composites business.

Other Operating Expenses

Selling, general, and administrative expenses as a percentage of revenues decreased to 26% in 2000 from 27% in 1999, primarily due to increased revenues from the stock-preparation equipment product line.

Research and development expenses increased slightly to $7.7 million in 2000, compared with $7.3 million in 1999, or 3% of revenues in both periods. The increase in research and development expenses in 2000 primarily represents increased expenditures in the Papermaking Equipment segment. The Company expects to increase its research and development expenses as it develops new products at its fiber-based composites business in 2001.

Gain on Sale of Business and Property

In September 2000, Thermo Fibergen sold its fiber-recovery and water-clarification services plant for $3.6 million, resulting in a gain of $0.7 million (Note 4). In June 2000, the Company sold its interest in a mill for $3.9 million in cash, resulting in a gain of $1.0 million (Note 4). In February 1999, the Company sold its Thermo Wisconsin subsidiary for $13.6 million in cash, resulting in a pretax gain of $11.2 million (Note 4).

Restructuring and Unusual Items

Restructuring and unusual income of $0.5 million in 2000, represents the reversal of a charge taken in 1999 related to the termination of a distributor agreement, which the Company is no longer obligated to pay due to the breach of the agreement by the third party distributor (Note 11). Restructuring and unusual costs 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).

Management's Discussion and Analysis of Financial Condition and Results of Operations

2000 Compared With 1999 (continued)

Interest Income and Expense

Interest income increased to $10.5 million in 2000 from $8.5 million in 1999, due to higher average invested balances and, to a lesser extent, higher interest rates. The Company expects interest income to decrease in 2001 as a result of lower cash balances due to the September 2000 redemption and the anticipated September 2001 redemption of Thermo Fibergen common stock (Note 1), as well as lower prevailing interest rates. Interest expense was relatively unchanged at $7.5 million in 2000 and $7.4 million in 1999.

Income Taxes

The effective tax rate was 41% in 2000, compared with 39% in 1999. The effective tax rate exceeded the statutory federal income tax rate primarily due to the impact of state income taxes and nondeductible expenses. The effective tax rate increased in 2000 as a result of an increase in nondeductible and other expenses.

Minority Interest

Minority interest income in 2000 primarily represents the minority investor's share of losses in Thermo Fibergen's 51%-owned subsidiary for the full year, offset in part by accretion of Thermo Fibergen's common stock subject to redemption. As of September 30, 2000, Thermo Fibergen's common stock subject to redemption was fully accreted. In January 2001, Thermo Fibergen purchased the remaining 49% equity interest in NEXT Fiber Products from the minority investors. Through Thermo Fibergen's redemption of common stock in September 2000 (Note 1), the Company's ownership in Thermo Fibergen increased to 91%. Minority interest expense in 1999 primarily represents accretion of Thermo Fibergen's common stock subject to redemption, offset in part by the minority investor's share of losses in Thermo Fibergen's 51%-owned subsidiary.

1999 Compared With 1998

Revenues

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 other 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, related to demand for two recently introduced products. 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.

Management's Discussion and Analysis of Financial Condition and Results of Operations

1999 Compared With 1998 (continued)

Gross Profit Margin

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

Other Operating Expenses

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.

Gain on Sale of Business and Property

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

Restructuring and Unusual Items

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).

Interest Income and Expense

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.

Income Taxes

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

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

Liquidity and Capital Resources

Consolidated working capital was $173.1 million at December 30, 2000, compared with $158.7 million at January 1, 2000. Included in working capital are cash, cash equivalents, and available-for-sale investments of $148.6 million at December 30, 2000, compared with $85.7 million at January 1, 2000. In addition, the Company had $5.7 million and $93.8 million invested in an advance to affiliate as of December 30, 2000 and January 1, 2000, respectively. As of August 2000, the Company no longer participates in the domestic cash management arrangement with Thermo Electron. The net decrease in cash, cash equivalents, and advance to affiliate in 2000, is primarily due to the September 2000 redemption of Thermo Fibergen's common stock for $34.6 million (Note 1). Of the total cash, cash equivalents, and available-for-sale investments at December 30, 2000, $13.2 million and $7.2 million was held by the Company's majority-owned Thermo Fibergen and Thermo Fiberprep subsidiaries, respectively, and the remainder was held by the Company and its wholly owned subsidiaries. At December 30, 2000, $37.3 million of the Company's cash, cash equivalents, and available-for-sale investments was held by its foreign subsidiaries.

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Financial Condition and Results of Operations

Liquidity and Capital Resources (continued)

During 2000, $18.4 million of cash was provided by operating activities. A decrease in accounts receivable provided $1.0 million of cash, primarily due to improved collection efforts. Inventories and unbilled contract costs and fees used cash of $1.4 million, including $2.5 million related to an increase in inventories, primarily in the stock preparation product line due to several large orders and at Thermo Fibergen, offset in part by a $1.1 million decrease in unbilled contract costs and fees, primarily in the stock-preparation product line due to the timing of billings and an increase in revenues. A decrease in other current liabilities used $2.2 million of cash, consisting primarily of a $3.3 million decrease in billings in excess of costs and fees related to the timing of payments on long-term contracts.

During 2000, the Company's investing activities, excluding available-for-sale investments and advance to affiliate activity, used $6.0 million of cash. The Company used $3.3 million, net of cash acquired, to purchase the assets of Cyclotech and Gauld Equipment (Note 4) and $1.2 million to purchase certain capital equipment and technology for Thermo Fibergen's composites business. In addition, the Company purchased property, plant, and equipment for $6.4 million, including $3.8 million at Thermo Fibergen. In June 2000, the Company sold its interest in the Tree-Free mill for $3.9 million in cash (Note 4). In September 2000, Thermo Fibergen sold its fiber-recovery and water-clarification systems plant for $3.6 million. Thermo Fibergen received $0.2 million at the closing date and began receiving seventeen equal monthly installments of $0.2 million beginning on September 28, 2000 (Note 4), amounting to an additional $0.8 million as of year end 2000.

During 2000, the Company's financing activities used $33.7 million of cash. During the month of September 2000, the initial redemption period, holders of Thermo Fibergen's common stock and common stock redemption rights surrendered 2,713,951 shares of Thermo Fibergen's common stock at a redemption price of $12.75 per share, for a total of $34.6 million (Note 1). Thermo Fibergen used available working capital to fund the payment and retired these shares immediately following the redemption. Holders of a redemption right have the option to require Thermo Fibergen to redeem one share of Thermo Fibergen's common stock at a redemption price of $12.75 per share in September 2001, the next and final redemption period. A redemption right may only be exercised if the holder owns a share of Thermo Fibergen's common stock at the same time. As of December 30, 2000, there were 2,001,049 redemption rights outstanding and 1,075,749 shares of Thermo Fibergen's common stock held by persons other than the Company or Thermo Electron. In addition, Thermo Electron, the Company, and/or Thermo Fibergen may acquire additional shares of the Thermo Fibergen's common stock in the open market. To the extent the number of rights exceeds the number of shares of Thermo Fibergen's common stock held by persons other than Thermo Electron or the Company, the maximum redemption value that Thermo Fibergen would be required to pay is an amount equal to the redemption price of $12.75 per share times the total number of shares of Thermo Fibergen's common stock outstanding held by persons other than Thermo Electron or the Company at the time of the redemption. The redemption rights are guaranteed, on a subordinated basis, by Thermo Electron Corporation, but the Company is required to reimburse Thermo Electron if Thermo Electron makes any payment under the guarantee. In addition, the Company has agreed to lend Thermo Fibergen up to $5 million on commercially reasonable terms for the September 2001 redemption obligation and for working capital needs.

At December 30, 2000, the Company had $72.3 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 2001, the Company plans to make expenditures for property, plant, and equipment of approximately $7.9 million. Included in this amount is $4.1 million for Thermo Fibergen, which intends to make capital expenditures to develop and expand its fiber-based composites business. This business will continue to require a significant amount of capital investment as the business grows. The Company believes that its existing resources are sufficient to meet the capital requirements of its existing operations for the foreseeable future.

Management's Discussion and Analysis of Financial Condition and Results of Operations

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 2000 and 1999 market interest rates would result in a negative impact of $2 million and $4 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 2000 and 1999 interest rates would result in a negative impact of $0.4 million and $0.6 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 2000 and 1999 market equity prices would result in a negative impact of $0.1 million and $3.0 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's common stock. The holder of a Thermo Fibergen redemption right that holds a share of Thermo Fibergen's common stock at such time may require Thermo Fibergen to redeem one share of Thermo Fibergen's common stock at $12.75 per share in September 2001, the second and final redemption period. These redemption rights are all guaranteed on a subordinated basis by Thermo Electron, but the Company is required to reimburse Thermo Electron in the event that Thermo Electron makes a payment under the guarantee. If Thermo Fibergen's common stock is trading on the open market at a price that is less than $12.75 per share in September 2001, the holders of redemption rights that also hold shares of Thermo Fibergen's common stock at such time would more likely than not exercise their redemption rights. In the event all redemption rights for which there is a corresponding share of Thermo Fibergen common stock outstanding, other than those shares held by Thermo Electron or the Company, are exercised, Thermo Fibergen and/or the Company may use up to $17.0 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's common stock and Thermo Fibergen's redemption rights. Since

Management's Discussion and Analysis of
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Market Risk (continued)

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's 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's 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 2000 and 1999 functional currencies, relative to the U.S. dollar, would result in a reduction of shareholders' investment of $7.6 million and $7.9 million, respectively.

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 2000 and 1999 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 $1.2 million and $0.2 million, respectively. 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.

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 2001 and beyond to differ materially from those expressed in any forward-looking statements made by, or on behalf of, the Company.

Dependency on the condition of the pulp and paper industry. The pulp and paper industry has been in a down cycle for several years. The Company's products are primarily sold to the paper industry. Generally, the financial condition of the global 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 global paper industry entered a severe downcycle in early 1996 from which it has not fully recovered. Recently, the North American paper industry has been adversely affected by a slowing economy, higher energy prices and a strong U.S. dollar. This cyclical downturn has adversely affected the Company's business. No assurance can be given that the financial condition of the paper industry will improve in the near future.

Economic, currency and political risks and other risks associated with international sales and operations. During 2000, approximately 49% of the Company's sales were to customers outside the United States, principally in Europe. In addition, China is becoming an increasingly important market for the Company. 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 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 the Company provides in foreign markets where payment for the 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 its business and results of operations.

Competition. The Company encounters and continues 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 such as J.M. Voith AG and Metso Corporation. 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.

The composites business - a new entrant into a new market. The Company recently established a subsidiary to develop, produce, market and sell fiber-based composites primarily for the building industry. The Company has recently introduced a soundwall fence, privacy fence and decking product to the market. The Company is currently developing several composite roof tile products. Development and commercialization of the Company's composite products will require significant development and testing of the products and manufacturing process and there can be no assurance its development efforts will be successful. Further, there can be no assurance that the Company's composite products will gain market acceptance. The Company's ability to successfully market these products will depend on converting the demand for wood-based building products into demand for the Company's fiber-based composites and on the Company's ability to educate customers of the benefits of its products. The Company's strategy will be to emphasize the advantages of its products over conventional wood-based products or other competitive non-wood alternatives. To penetrate the market and gain market share, the Company must educate consumers, including wood suppliers, contractors and homebuilders, regarding the benefits of the Company's fiber-based products over products made of wood and other traditional materials.

Forward-looking Statements

Limited Composites Manufacturing Experience. The Company has limited experience manufacturing composite products at volume, cost and quality levels sufficient to satisfy expected demand and no assurance can be given that it will not encounter difficulties in connection with any large scale manufacturing or commercialization of these new products.

Dependence on Patents and Proprietary Rights. The Company's inability to protect its intellectual property could have a material adverse effect on its business. In addition. third parties may claim that the Company infringes their intellectual property and the Company could suffer significant litigation or licensing expense. 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. The Company has also filed for several patents relating to its composite materials business. 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 its 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 under these patents will provide competitive advantages to the Company. In addition, competitors may design around the Company's technology or develop competing technologies. Intellectual property rights may also be unavailable or limited in some foreign countries, which could make it easier for competitors to capture increased market position. The Company could incur substantial costs in defending itself in suits brought against it or in suits in which it may assert our patent rights against others. If the outcome of any such litigation is unfavorable to the Company, the business and results of operations could be materially adversely affected.

There can be no assurance that third parties will not assert claims against the Company to the effect that we are infringing their intellectual property rights. The Company could incur substantial costs and diversion of management resources with respect to the defense of these claims, which could have a material adverse effect on the Company's business, financial condition, and results of operations. In addition, 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 or there are pending or issued patents held by third parties not affiliated with the Company that relate to its products or technology, 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, or that such challenge would be successful. The failure to obtain the necessary licenses or other rights could prevent the sale, manufacture, or distribution of its 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 to or be independently developed by competitors.

Risks Associated with Acquisition Strategy. The Company may not be successful in identifying and completing acquisitions or successfully integrating any acquisitions. The Company's acquisition strategy includes the acquisition of businesses that complement or augment its 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 be able to successfully integrate any acquired businesses into the existing businesses or make such businesses profitable.

Forward-looking Statements

Risks Associated with Fluctuations in Quarterly Operating Results. Given the nature of the markets in which the Company participates and the effect of the newly issued Staff Accounting Bulletin No. 101 regarding the recognition of revenues, the Company cannot reliably predict future revenue and profitability, and unexpected changes may cause the Company to adjust operations. A significant proportion of the Company's costs are fixed, due in part to significant sales, research and development, and manufacturing costs. Thus, small declines in revenue could disproportionately affect the Company's operating results. Other factors that could affect the Company's quarterly operating results include:

- Demand for and market acceptance of its products
- Competitive pressures resulting in lower selling prices
- Adverse changes in the pulp and paper industry on which the Company is particularly dependent - Unanticipated delays or problems in the introduction of new products - Competitors' announcements of new products, services or technological innovations - Contractual liability related to guarantees of its equipment performance - Increased costs of raw materials or supplies, including the cost of natural gas - Changes in the timing of product orders - The Company's inability to forecast revenue in a given quarter from large system sales, which in many cases, are required to pass an acceptance test demonstrating the system's effect on the customer's process.

Risks Related to the Distribution of the Company's Common Stock by Thermo Electron. Thermo Electron has announced its intention to distribute the shares of Thermo Fibertek it owns as a dividend to its shareholders. A number of actions following the distribution of the Company's common stock could cause the distribution to be taxable to the Company, Thermo Electron, and stockholders of Thermo Electron who receive shares of the Company's common stock in the distribution.

Although the IRS has issued a ruling that no gain or loss will be recognized by the Company, Thermo Electron, or its stockholders upon the distribution of common stock as of the date of the distribution, the distribution could become taxable if the Company, Thermo Electron, or the stockholders of Thermo Electron who receive shares of the Company's common stock in the distribution take any of a number of actions following the distribution. The Company expects it will enter into a Tax Matters Agreement with Thermo Electron, which will restrict the Company's ability to engage in these types of actions. These restrictions could prevent the Company from engaging in transactions following the distribution that might otherwise benefit its business. Thermo Electron may impose other restrictions on the Company's activities, including the use of cash or the Company's borrowing capacity, in connection with the distribution of the Company's shares.

Sales of substantial amounts of the Company's common stock may occur in connection with the distribution, which could cause the stock price to decline. Substantially all of the shares of the Company's common stock to be distributed by Thermo Electron will be eligible for immediate resale in the public market. The Company is unable to predict whether significant amounts of common stock will be sold in the public market in anticipation of or immediately following the distribution or whether a sufficient number of buyers will be in the public market at that time. Stockholders of Thermo Electron that received shares of the Company's common stock in the distribution may decide to sell such shares in the public market for any number of reasons, including the fact that the Company's business profile or market capitalization may not fit their investment requirements or objectives. For example, a portion of Thermo Electron's common stock is held by index funds tied to the Standard & Poor's 500 Index or other stock indices. If the Company is not in these indices at the time of Thermo Electron's distribution of the Company's common stock, these index funds will be required to sell the Company's stock.

In addition, the IRS ruling required that the Company raise additional equity within one year of the spin off subject to certain conditions. The Company has announced that it plans to issue equity in the range of 10-20% of its outstanding shares of its common stock to support its current business plan. Any sales of substantial amounts of the Company's common stock in the public market, or the perception that such sales might occur, whether as a result of this distribution or otherwise, could cause the market price of the Company's common stock to decline.

Forward-looking Statements

The Company may have potential business conflicts of interest with Thermo Electron with respect to its past and ongoing relationships that could harm the Company's business operations. Conflicts of interest may arise between Thermo Electron and the Company in a number of areas relating to its past and ongoing relationships, including:

- Labor, tax, employee benefit, indemnification and other matters arising from the Company's separation from Thermo Electron;
- Intellectual property matters;
- Employee retention and recruiting;
- The nature, quality and pricing of the transition services Thermo Electron has agreed to provide the Company; and
- Restrictions related to the Company's use of cash and debt and Thermo Electron's continuing obligations under the guaranty of the Company's subordinated convertible debentures.

The Company may not be able to resolve any potential conflicts, and even if it does, the resolution may be less favorable than if it were dealing with an unaffiliated party.

Thermo Electron has agreed to provide certain transitional administrative services to the Company for a period following the distribution, including legal advice and services, risk management, employee benefit administration, tax advice and preparation of tax returns, centralized cash management and financial and other services in exchange for a fee. Thermo Electron has agreed to provide the Company with these services at a level and in a manner consistent with the services provided to the Company by Thermo Electron prior to the distribution. Such services may not be sufficient to meet the Company's needs and the Company may not be able to supplement and eventually replace them in a timely manner or on terms and conditions as favorable as those the Company receives from Thermo Electron. In addition, after the distribution of the Company's stock, it will no longer be entitled to benefit from group or volume discounts negotiated by Thermo Electron for items such as employee benefits, insurance and travel.

Selected Financial Information

(In thousands except per share amounts)	2000 (a)	1999 (b)	1998	1997 (c)	1996
Statement of Income Data					
Revenues	$234,913	$228,036	$247,426	$239,642	$192,209
Income Before Cumulative Effect of Change in Accounting Principle	16,012	17,778	17,995	16,426	19,894
Net Income	15,142	17,778	17,995	16,426	19,894
Earnings per Share Before Cumulative Effect of Change in Accounting Principle:					
Basic	.26	.29	.29	.27	.33
Diluted	.26	.29	.29	.26	.31
Earnings per Share:					
Basic	.25	.29	.29	.27	.33
Diluted	.25	.29	.29	.26	.31
Balance Sheet Data					
Working Capital	$173,097	$158,711	$193,446	$176,996	$115,609
Total Assets	414,215	442,577	427,100	418,938	257,232
Long-term Obligations	154,650	154,350	153,000	153,000	34
Common Stock of Subsidiary Subject to Redemption	-	-	53,801	52,812	56,087
Shareholders' Investment	170,633	164,070	150,948	138,095	130,850

(a) Reflects a $1.7 million pretax gain on the sale of property, $0.5 million of pretax income related to restructuring and unusual items, the redemption of $34.6 million of Thermo Fibergen's common stock, and the cumulative effect of change in accounting principle of $0.9 million, net of income taxes of $0.6 million.
(b) Reflects an $11.2 million pretax gain on the February 1999 disposition of Thermo Wisconsin, Inc., pretax restructuring costs and unusual items of $6.2 million, and the reclassification of common stock of subsidiary subject to redemption to current liabilities.
(c) 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.

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 2000 and 1999, as reported in the consolidated transaction reporting system.

	2000		1999	
Quarter	High	Low	High	Low
First	$8 3/16	$6 7/16	$7 15/16	$7
Second	6 15/16	3 15/16	7 13/16	6 1/2
Third	5 1/8	4	7 7/16	6 1/8
Fourth	4 1/4	3 7/16	7 1/4	6 7/16

As of January 26, 2001, the Company had 649 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 26, 2001, was $3 5/16 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, respectively).

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. Company information is also available at http://www.thermofibertek.com.

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
59 Maiden Lane
New York, New York 10038
(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 December 30, 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 14, 2001, 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 Fibertek Holdings 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	70*
Lamort GmbH	Germany	100
Lamort Iberia S.A.	Spain	100
Lamort Italia S.R.L.	Italy	100
Nordiska Lamort Lodding A.B.	Sweden	100
Thermo Black Clawson Limited	England	100
Acreloten AB	Sweden	100
Thermo Fibergen Inc. (additionally, 0.08% of the shares are owned directly by Thermo Electron Corporation)	Delaware	90.56
Fibergen Securities Corporation	Massachusetts	100
GranTek Inc.	Wisconsin	100
Next Fiber Products Inc.	Delaware	100

* 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 12, 2001, included in or incorporated by reference into Thermo Fibertek Inc.'s Annual Report on Form 10-K for the year ended December 30, 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, Registration Statement No. 333-80509 on Form S-8, and Registration Statement No. 333-48498 on Form S-8.

Arthur Andersen LLP

Boston, Massachusetts
March 22, 2001